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The world this week

Jan 11th 2001
From The Economist print edition

Clinton's last gasp

Bill Clinton outlined his well-leaked plans for an **Israeli-Palestinian settlement**, but neither the Palestinians, of whom at least 306 have been killed in the recent violence, nor the Israelis, approaching a prime-ministerial election that the hardline Likud leader is set to win, seemed interested. But they did talk to each other about security, and may renew joint patrols.

See article: Ariel Sharon's two faces

The trial of two Libyans accused of murdering 270 people in a mid-air bomb explosion over **Lockerbie** in Scotland in 1988 neared its end when the defence unexpectedly rested its case after calling only three witnesses.

Saudi Arabia's interior minister announced that he would be visiting Iran soon to sign a **security pact**. This would be the first security agreement between Iran and a member of the Gulf Co-operation Council.

As **Sierra Leone**'s war spread deeper into Guinea, the UN's refugee agency struggled to protect several hundred thousand refugees displaced by fighting.
See article: Fuelling Sierra Leone's war

The government of **Côte d'Ivoire** foiled an armed coup by rebel soldiers. It blamed its neighbours for giving assistance to the plotters. The president of Burkina Faso said the situation in Côte d'Ivoire threatened the stability of West Africa.

Can't get the help

George Bush, America's president-elect, suffered a setback in his efforts to prepare a new government. His nomination for labour secretary, **Linda Chavez**, was forced to withdraw. She had admitted employing an illegal immigrant in her home.
See article: Linda Chavez fails the test

Jesse Helms, the chairman of the Senate Foreign Relations Committee, said he would support the paying of America's **arrears to the United Nations**, even though the international body has not completed all the financial reforms he would like. The UN says the United States owes nearly $1.6 billion.

Edwin Edwards, a former governor of Louisiana, who has survived more than 20 **criminal investigations**, was finally sentenced to ten years in prison for extortion.

AP

Lucien Bouchard, **Quebec**'s premier, was said to be going to resign after clashing with hardline separatists in his Parti Québécois.

After a week defiantly holed up in his seaside holiday home, **General Augusto Pinochet** began medical tests in Santiago's military hospital. The tests were ordered by Chile's courts to establish whether the former dictator is mentally fit to stand trial on charges for atrocities.

See article: Another setback for Pinochet

More bloodshed in **Colombia**. Right-wing paramilitaries killed 25 civilians in six incidents. Helicopter-borne troops rescued 56 people held hostage by the ELN guerrillas, who then took a further 13 hostages. And a car bomb near a Medellin shopping mall injured 50. Meanwhile, in an apparent attempt to keep a stalled peace process alive, the FARC, the main guerrilla group, was said to be planning to release 150 of the 450 soldiers and police it holds captive.

Ten candidates registered for **Peru**'s presidential election, due in April. As well as Alejandro Toledo, defeated by now-disgraced Alberto Fujimori in a rigged vote last year, they included Alan Garcia, a former president whose rule from 1985 to 1990 was marked by disastrous populism.
See article: Peru's wide-open election campaign

Talking about talks

The UN announced that **Myanmar**'s military junta had begun talks about talks with the leader of the country's democracy movement, Aung San Suu Kyi, who remains, in effect, under house arrest. Such contact, the first for five years, could mark a more conciliatory approach by the isolated rulers.
See article: Talks in Myanmar?

The trial began in **Indonesia** of six men charged with murdering three UN officials in West Timor last year.

Reuters

Thai Rak Thai, the party of Thaksin Shinawatra, a telecoms tycoon, won 254 seats in the 500-seat lower house of **Thailand**'s parliament, according to unofficial results. Mr Thaksin may, however, be ineligible for the prime ministership if a ruling condemning him for failing to declare all his assets is upheld.
See article: After Thailand's election
Documents published in the United States purporting to show fierce disagreement among Chinese leaders at the time of the **Tiananmen Square** massacres in 1989 were dismissed as forgeries by the Communist government.
See article: China's embarrassing past

Branded with failure

Two **German** government ministers, Andrea Fischer, a Green in charge of health, and Karl-Heinz Funke, a Social Democrat responsible for agriculture, resigned amid allegations that they had mishandled the country's crisis over mad-cow disease.
See article: Germany's government is jolted

AP

Joschka Fischer, Germany's Green foreign minister, who is due to give evidence at a terrorist trial of a former political associate from his days as a far-left activist, rejected charges that he had been untruthful over the extent to which he had himself been involved in violent protest.
See article: Germany's government is jolted
Guido Westerwelle was chosen to replace Wolfgang Gerhardt as head of the Free Democratic Party, Germany's liberals, who were junior partners in government with the Christian Democrats until 1998. He said his party should consider a partnership with the ruling Social Democrats.
See article: Germany's liberals think of switching sides

Biljana Plavsic, a former president of **Bosnia**'s Serb Republic, gave herself up to the UN's war-crimes tribunal at The Hague. She was charged with genocide but pleaded "not guilty".

Germany and Italy called for an inquiry into **depleted uranium,** used in NATO's shells in the Balkans. It is accused of causing up to 30 peacekeepers to die of cancer.
See article: NATO's depleted uranium

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Business this week

Jan 11th 2001
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Military blunder

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American Airlines struck two deals that would consolidate its domestic position alongside **United Airlines**. It offered to buy **Trans World Airlines**, the country's eighth-largest carrier, and some assets of **US Airways** for $1.7 billion. The acquisitions from US Airways should help United's takeover of that airline to get regulatory approval. United and American would each control around 25% of America's market, if allowed to proceed.
See article: American airlines consolidate, cont'd

Airbus Industrie won the latest round of its battle with **Boeing** by concluding an agreement with **United Parcel Service** for the purchase of 60 A300-600 cargo planes. The $6 billion order will be delivered in the period 2003-09. **FedEx**, another American parcel-delivery service, which has just signed a deal to handle some of the postal service's air transport, is rumoured to want ten A380s.

California's electricity crisis worsened as Southern California Edison and Pacific Gas & Electric, two huge power utilities, teetered on the brink of bankruptcy. Federal and state officials met with industry representatives in Washington, DC, and promised to find a solution. The companies owe over $10 billion for electricity and the law forbids them from passing on the charges to customers.
See article: California's energy crisis

Lafarge, a French building-materials company and the world's second-largest cement supplier, agreed to buy **Blue Circle Industries**, Britain's biggest cement firm, for £3.1 billion ($4.6 billion). Blue Circle rebuffed a hostile bid from Lafarge last year. The deal would consolidate Lafarge's position as the world's leading cement company.

The president and chief executive of Japan's biggest tyre maker, **Bridgestone**, Yoichiro Kaizaki, is to resign. The resignation is an effort to salvage the company's name, which has been tarnished by the tyre recall at its American subsidiary, Bridgestone-Firestone, and by lawsuits linked to accidents on Ford Explorers that had Firestone tyres.

Hold the phone

Hutchison Whampoa, a Hong Kong conglomerate, sold exchangeable bonds worth $2.5 billion that can be converted into part of its shareholding in **Vodafone**, the world's leading mobile-phone operator. Hutchison got the stake in exchange for its share of Mannesmann; the bond issue involved a third of its 3.5% holding. Vodafone's shares fell on fears that hedge funds that had bought the bonds were short-selling Vodafone.

Vodafone moved into Latin America's burgeoning mobile-phone market. It acquired a 34.5% stake in **Iusacell**, Mexico's second-largest mobile-phone company, for $973m.

France Telecom announced plans to sell part of **Orange**, the mobile-phone unit it bought from Vodafone last year and which it has since bolstered with its own mobile holdings. France Telecom could

sell as much as 15% of Orange and raise up to *euro*11 billion ($10.3 billion). It also intends to issue a convertible bond to raise more cash to put towards paying off debts of around *euro*60 billion.

NTT DoCoMo, Japan's biggest mobile-phone operator, is to make a secondary share offering worth some ¥900 billion ($7.7 billion), using the proceeds to help pay for its recent investment in AT&T Wireless.

Shares in **Nokia**, the world's leading maker of mobile phones, suffered an 8.7% decline after it announced that handset sales had reached only 128m in 2000; analysts had expected sales to top 135m. Recent figures suggested that Nokia had won market share at the expense of rivals; their shares also dipped.

Tiscali, an Italian Internet service provider, made headway in its challenge to Europe's largest ISP, Deutsche Telekom's **T-Online**. Tiscali is to pay some *euro*650m ($611m) for Liberty Surf, a French ISP, after earlier buying World Online. It will become Europe's second-largest ISP with some 4.9m subscribers, compared with T-Online's 6.7m.

SAP, Europe's biggest business-software company, announced that revenues for the last quarter of 2000 were higher than it had expected at *euro*2.1 billion ($1.8 billion)—27% above the same period in 1999. This suggests that SAP may be in a better position than most to cope with a fall in IT spending as the economies of America and Europe slow down.

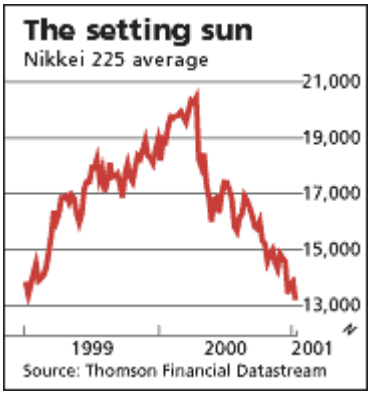
Yahoo!, the big Internet portal company, reported fourth-quarter profits in line with expectations. But it cut forecasts of revenues in 2001, leading to a sharp sell-off of its shares.

Debt dilemmas

Russia agreed to interest payments of a paltry $10m on Soviet-era debt that is not part of a rescheduling deal with the Paris Club of western debtors. However, Russia confirmed that it would allow only a partial servicing of the bulk of its $48 billion debt, probably hoping to force another restructuring of its foreign debts.

Deepening gloom over **Japan**'s economic prospects sent the Nikkei stockmarket average tumbling once again. On January 11th, it hit a new 27-month low.

Central bankers from the G10 countries meeting in Basle attempted to counteract doom-mongers with a cheery prediction that the American and world economies were headed for a soft landing. However, issuing comforting reassurance when crisis threatens comes near the top of the job description for most central bankers.



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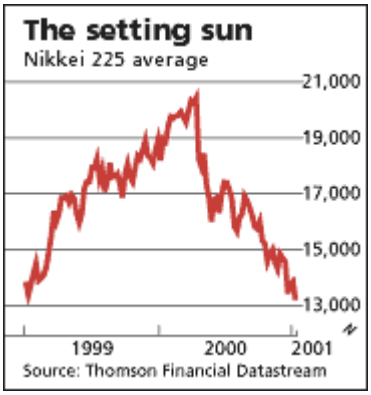

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A new scandal at Crédit Lyonnais

Jan 11th 2001
From The Economist print edition

The latest scandal over Crédit Lyonnais suggests that more needs to be done to clean up the bank—and France

AP

FEW recent financial scandals rival the Crédit Lyonnais affair. In the 1980s this profligate French state-owned institution grew into one of the world's biggest banks, following a lending spree unleashed under Jean-Yves Haberer, its then chairman. Crédit Lyonnais became notorious as the bank that could not say no. It helped several shady entrepreneurs to buy assets all over the world. But then its aspirations all went horribly wrong. When recession hit in the early 1990s, large sums disappeared after much of Crédit Lyonnais's exuberant lending blew up in its face. The bank began to record huge losses—and to fiddle its accounts to disguise them.

By late 1993 the French government had had enough. It threw out Mr Haberer and replaced him with Jean Peyrelevade. Mr Peyrelevade was given an urgent, but simple, mission: clean up the bank and prepare it for a privatisation that would take it out of the state's hands for ever. On the face of it, Mr Peyrelevade has delivered. Shorn of its most controversial and worst-performing loans, which were hived off into a "bad bank", and boosted by successive taxpayer bail-outs, the good bank Crédit Lyonnais was privatised in July 1999. Surely this marked the end of the scandal?

A new chapter

Unfortunately for France's politicians and officials—and for Mr Peyrelevade himself—the story is far from over. Over the past few months, *The Economist* has been looking into a complicated deal that Crédit Lyonnais undertook in America between late 1991 and 1995. Our investigation suggests that the bank may be embroiled in a new and even more embarrassing scandal, which implicates not only the former managers who have long been saddled with the blame for landing the bank in trouble, but also some active senior figures—including Mr Peyrelevade himself (see article).

We understand that the United States Department of Justice is preparing to issue criminal indictments naming both Crédit Lyonnais and some of its managers. In a related inquiry, the Federal Reserve Bank of New York, which oversees the activities of foreign banks in America, is in the process of deciding whether it should suspend Crédit Lyonnais's banking licence. This penalty, which is rarely invoked, is the most serious that can be inflicted on a bank. It would normally be accompanied by large fines.

The new scandal stems from a deal involving Executive Life, a failed Californian insurance company. A clever financial coup over Executive Life's junk-bond portfolio produced big profits for its acquirer. But in late 1998 it emerged that Crédit Lyonnais had failed to disclose its direct involvement in taking over both the portfolio and Executive Life itself. Documents obtained by the American authorities suggested that the bank had knowingly broken the law, both before and after Mr Peyrelevade became chairman in November 1993. Full details of the Executive Life deal were sent to Mr Peyrelevade within days of his appointment. Yet he now claims not to have known about any of these possible wrongdoings until late 1998, when he was informed by the Americans.

Follow it up

This claim is vital both to the future of Crédit Lyonnais and to Mr Peyrelevade personally. If it could be shown that he did in fact know, then the American authorities would probably have no choice but to

inflict the toughest sanctions on both him and the bank. Even a reasonable suspicion that he should have known might justify closing down the bank in America.

Whatever punishment Crédit Lyonnais receives, it will be horribly embarrassing for the French government and for the Bank of France, which have invested both financial and political capital in rescuing the ailing bank. Jean-Claude Trichet, governor of the Bank of France since 1993 (and, before that, head of the French treasury), is already under investigation over his handling of Crédit Lyonnais. This inquiry has put a cloud over his hopes of becoming president of the European Central Bank when Wim Duisenberg leaves, as planned, some time next year. The new scandal over Executive Life is surely enough to justify postponing Mr Trichet's accession unless and until further inquiries exonerate him.

There is another worrying dimension. In order to clean up Crédit Lyonnais, the government created a "bad bank" into which all of its most problematic assets were parked so that they could be sold or managed until they expired. The "clean" remainder of Crédit Lyonnais was then on track for privatisation. This has proved costly for French taxpayers, who have footed an endless series of bills from the bad bank. Would successive French governments (to say nothing of their electorate) have tolerated this had they known that the bank was heading for trouble over Executive Life? Surely they would have insisted that this should be cleared up before any further bail-outs would be forthcoming? Or, perhaps worse still, did dozens of French officials and politicians, including some quite senior ones, actually find out about, and then agree to cover up, the bank's persistent wrongdoings?

Such questions will reverberate throughout the country—and indeed anywhere that companies, especially banks, remain owned by the state. This scandal occurred in France, but it could have happened almost anywhere where state ownership or government cronyism muddies lines of accountability and transparency. Like much of the rest of the world, France is in a painful, yet wholly desirable, transition towards greater accountability in its public sector and in its financial institutions. In the past, politicians and bosses of state-owned companies were content to sweep any nastiness under the carpet, confident that they would not have to answer for it. Today's mood is different. From Jacques Chirac, embroiled in his own scandals, to Jean Peyrelevade, senior establishment figures are under pressure to embrace higher standards. Their response to the latest Crédit Lyonnais scandal will be a big test of how far in that direction they have moved.

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Not guilty

Jan 11th 2001
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The British government is planning to renew its attack on juries. They need defending, but reforming

"NOBODY should suffer loss of liberty," says the Magna Carta, "except by the judgment of his peers." Eight centuries on, one might expect the guarantees of personal liberty to be stronger than they were then; yet the principle embodied in the charter is under threat.

Last year the home secretary, Jack Straw, introduced a bill to restrict defendants' right to trial by jury. It was thrown out by the House of Lords. This year he plans to reintroduce it, using all the government's powers to push it through parliament. And next month a report by Lord Justice Aulds (see article) on the criminal justice system is likely to make even more fundamental recommendations for reform, including advocating a new hybrid court presided over by a judge and two lay magistrates. Both proposals assume that jury trials are a luxury Britain can afford only for the most serious cases such as armed robbery and murder.

What lies behind this view? Cost, for one thing. Juries are occasionally perverse, frequently fallible and invariably slow. Legal argument about whether or not evidence is admissible often takes hours. Cutting the number of jury trials would thus save money. But suspicions that juries are taken in by plausible criminals are also responsible for this renewed attack. The rising number of acquittals in jury trials worries the police and prosecutors. In 1977, juries in England and Wales acquitted just under a third of defendants. By 1999, acquittals rose to nearly 43%.

Maybe juries are more gullible than they were, but it is equally likely that other factors are at work. Cases are sometimes poorly prepared by the Crown Prosecution Service. "Over-charging"—when police pile on more charges than they have evidence for, in the hope that one or two will stick—is said to be increasingly common. Prosecuting barristers, poorly paid in comparison with the defence, often struggle with their brief. And, after decades of publicity for cases in which innocent people have been wrongly imprisoned, juries are more cynical than they used to be about the veracity of police evidence. The source of all these problems lies not in juries, but in other parts of the criminal justice system; the rising acquittal rate is a symptom, not a cause, of the problem.

Yet there are also well-founded worries about juries themselves. The most troubling one concerns their composition. A jury is supposed to represent a defendant's peers, yet juries are getting less and less representative of society. The number of professionals available is reduced, from the start, by a long list of automatic exemptions, which includes members of parliament, peers, nurses, soldiers, sailors, chemists, vets, doctors and clergymen. On top of that, according to a 1999 Home Office research study, two-thirds of the people summoned for jury service are granted waivers from the obligation, citing, for instance, the pressure of work or a planned holiday. And because those in well-paid employment have more reason to try to get off, and a wider range of plausible excuses to hand, juries are disproportionately made up of the young, the old and the unemployed.

Press the peers into service

This needs to be changed. The idea that the country would grind to a halt if all those peers, chemists and vets had to do jury service once in their lifetime is absurd. Britain should follow the example of many American states, where everybody, even lawyers and judges, has to serve time in court.

The courts are also too lax in dealing with potential jurors who fail to turn up. They mostly go unpunished

because the courts do not have the time or money to chase them up. In future, people who want to wriggle out of jury service should be required to give an alternative two-week period in which they are prepared to serve. Those who offer no such excuse should be pursued, and, if necessary, prosecuted. Trial by jury is an important liberty, which the British people should be prepared to make a few sacrifices to preserve.

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Don’t ban smokers...

Jan 11th 2001
From The Economist print edition

...burn them...and lots of others, too

AT THE end of last year, a town called Friendship Heights, in Maryland’s Montgomery County, approved America’s (and thus the world’s) strictest tobacco policy. Town officers courageously banned smoking on all public property, including streets, pavements and public squares. “It’s a public health issue,” said the mayor, Alfred Muller, who is also a doctor. “We don’t have the right to outlaw tobacco, but we’re doing what we can within our rights.”

This newspaper has expressed disgruntlement with the element of intolerance that is increasingly manifesting itself within America’s anti-tobacco movement. It must be said, however, that doughty Friendship Heights has discovered an approach that liberals can embrace. Private property is its owners’ sanctuary, but the public rules in public spaces. Undeniably, the streets belong to the government; what happens in them, therefore, is the government’s business.

On this worthy principle, smoking should be merely the beginning. For example, it is clear that the consumption of fatty foods contributes to heart disease, strokes and other deadly ailments. Besides, eating junk makes you fat and ugly. What people do at home is their own affair, but why allow them to abuse the public streets for this gluttony? America’s pavements and boardwalks are overridden with persons, many of them overweight, who amble along licking ice cream or gobbling chips. In many cities, hot dogs are mongered, quite openly, on the pavement itself. All this should be stopped. Not just in Friendship Heights but in other enlightened districts, it should be illegal to eat anything but low-fat foods in public zones. Because Americans consume too little by way of fruits and vegetables, in time (it is best to move slowly, because people’s rights *must* be respected) streets should become strictly vegetarian.

More can be done. Shrieking newspaper headlines create stress for those who may not wish to view them. People who want to buy and read papers should therefore be required to do so in private. America has long and justly sought to prevent the entanglement of religion with public life. What people do in church or at home is their business. However, praying, sermonising or wearing religious garb in the streets surely compromises the requirement that the public weal not be dragooned into supporting religion.

There is the environment to consider, as well. That people exhale carbon dioxide in public places, thus contributing to global warming, is probably inevitable, and America’s politicians would be wise to permit it. But methane, too, is a greenhouse gas, and an odiferous one. Its emission in public places, where it can neither be avoided nor filtered, seems an imposition on both planetary hygiene and human comfort. Breakers of wind, surely, can be required to wait until they can answer their needs in private; and prosecuted when they fail.

Kudos, then, to Friendship Heights. Other towns should take note. If they intend to fulfil their responsibilities to the health and welfare of citizens, to public order, and above all to the public streets and parks whose rights the authorities are sworn to uphold, then the way ahead is clear.

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Depleted NATO

Jan 11th 2001
From The Economist print edition

The burden of proof is on those who believe depleted uranium should be used, not banned, in weapons of war

Reuters

THE row about depleted uranium is one that NATO could have done without. It has only itself to blame.

The inability of NATO's members to settle or even discuss this emotive subject reasonably has caused a potentially damaging rift in the ranks of the alliance; and the row comes at an unfortunate time, when America is between presidents and the scope of Europe's new defence role is unresolved. Yet NATO's officials have behaved like their counterparts in other recent scares about public safety, issuing bland assurances that all is well, then qualifying them in the light of revelations and in the confused process adding to the public scepticism that understandably, although perhaps wrongly, now greets almost all official pronouncements on health and safety.

Depleted uranium is used to make anti-tank shells more deadly, and tank armour less penetrable. Some people believe its use by NATO in Bosnia and Kosovo has contributed to, if not caused, the cancer deaths of up to 30 former Balkan peacekeepers. The critics draw attention to the 1991 Gulf war, when scores, if not hundreds, of American soldiers (and doubtless far greater numbers of Iraqis), suffered depleted-uranium poisoning by entering stricken tanks without protection. They also point to the high levels of cancer among the people of southern Iraq, where depleted-uranium shells were used on a huge scale during the war. The critics, which include the governments of Italy and Germany, want an urgent investigation, and maybe an outright ban.

Officials in America and Britain counter that the levels of radioactivity emitted by depleted uranium are low. It is not responsible for the deaths of any peacekeepers, they say, and there is no cause for alarm. But this week the British government made a partial U-turn by offering screenings for those who have served in the Balkans.

In truth, depleted uranium is not highly radioactive, but it is certainly toxic, especially when munitions explode causing dust or smoke which may be ingested. NATO's Kosovo commanders acknowledge the danger by telling troops not to approach places contaminated by depleted uranium without good reason, and to wear heavy protection if they do.

NATO could argue that the health risks to soldiers and civilians posed by depleted uranium are outweighed by the military advantage it provides. It prefers, however, just to say "Don't worry." That is unwise. Especially in the Balkans, NATO's performance will be judged not just by its firepower, but also by the way it behaves. As far as possible, the NATO protectorates in Bosnia and Kosovo must be seen to be doing a humane and necessary job, not just by voters in troop-contributing nations, but by locals and indeed the rest of the world. Already the credibility of western governments in the eyes of many other countries has been undermined by the belief that they care far more about the health of their own soldiers than about people in the places they presume to protect—either in the Balkans or in Iraq.

Too nasty to use?

A full inquiry would help to clear the air. NATO may have little to fear from greater openness about the danger posed by depleted uranium. Documents leaked to the press suggest that the generals in the Balkans acted correctly in warning of its dangers—although questions need asking about whether all

NATO units heeded these warnings, and whether NATO and the UN did enough to keep civilians away from areas of contamination. And it may be that depleted uranium can, after all, be shown to be benign.

But on present evidence it looks very like one of the nasty inventions, such as land mines, napalm and biological weaponry, that the world would be better rid of. Many military experts, especially in Germany, a leader in the art of armoured warfare, reckon that other materials can do the same job more safely. Unless a full inquiry can prove otherwise, the West should work for a convention to ban this noxious substance.

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Tycoon or Thai con?

Jan 11th 2001
From The Economist print edition

Thaksin Shinawatra has won Thailand's election by promising the moon. Now he has to deliver, if the courts will let him

EPA

NEVER before in Thailand's admittedly rather abbreviated experience of democracy have the voters placed so much power in the hands of one politician as they have just given Thaksin Shinawatra. Since 1988, when Thailand got its first elected prime minister, as opposed to one put in place by the army with or without parliament's consent, its governments have been unwieldy multi-party coalitions. The outgoing one, led by the respected but unloved Chuan Leekpai, consisted of eight parties, and it was much to everyone's amazement that it lasted as long as three years. Its six predecessors had averaged only about a year each.

This time, in the election on January 6th, something rather remarkable has happened. Mr Thaksin, a billionaire telecoms tycoon who is often said to be the richest man in Thailand, seems to have won a narrow overall majority. Until now, no party in Thailand's history has ever won more than a third of the seats. Although he could govern alone, Mr Thaksin is seeking one or two coalition partners to make his position impregnable. But he has already made it clear that the partners will not be offered any important cabinet portfolios. And Mr Thaksin will exercise his exceptional powers at the head of a party, Thai Rak Thai ("Thais Love Thais"), that was formed only two years ago. Thailand is taking quite a leap in the dark.

And probably for the wrong reasons. Mr Thaksin, who likes to swan around Bangkok in a bronze-coloured Porsche, is a bit of an icon to poor Thais. From a humble family himself, via a period in the police followed by a spell selling IBM computers to his former colleagues in the force and another profiting from a highly lucrative mobile-phone monopoly, his billions are a big part of his popular appeal. If he can make so much money for himself, incant his sloganeers, think what he can do for you. No one, it seems, worries that the main source of Mr Thaksin's wealth is precisely the sort of cosy arrangement that Thailand needs to get rid of.

Mr Thaksin has reinforced the message with some cleverly directed promises. Peasant farmers are to be given a three-year holiday in which to repay their debts. Each of Thailand's 70,000 villages is to get a special grant of 1m baht ($23,000) to help it diversify away from growing rice. Health care will be available at clinics for a token 30 baht a visit. Businessmen have been wooed with promises that the government will write off their debts. Quite how any of this is to be paid for is left a mystery.

Not surprisingly, since Mr Thaksin is a populist, there is also a nastier side to his message, conveyed in the party's name, hinting as it does at a need for greater national assertiveness. During the campaign Mr Thaksin's supporters attacked the Chuan government for "selling the country to foreigners", not to mention "kissing their arses". The IMF, despite its readiness to bail Thailand out to the tune of $17 billion in 1997, has become a popular target. If these campaign themes turn out to be more than just rhetoric, Thailand may be about to swing in the anti-western direction first charted by Malaysia's Mahathir Mohamad.

But the biggest worry about Mr Thaksin and his party are that he shows no sign of the commitment to political reform that was the hallmark of Mr Chuan. The trouble with Mr Chuan was that, in his readiness to dispense long-term medicine, he failed to convince ordinary Thais that he cared about their immediate problems. Yet his efforts were none the less valuable for their failure to bring instant gratification. Among the most useful was the legislation he pushed through parliament governing a new national anti-corruption committee and an election commission, both designed to clean up Thailand's notoriously money-based politics. His successes should not be exaggerated: one election commissioner has called this the dirtiest election in Thailand's history. But Mr Chuan made a start, and above all showed that he meant what he said, sacrificing a staunch ally, Sanan Kachornprasart, when he fell foul of the corruption

people.

The perils of populism

Mr Thaksin has shown no such zeal for clean politics. When the committee decided to take a close look at his affairs, he snubbed it, claiming for weeks to be “too busy” to attend. When, shortly before the election, it ruled that he had filed false asset information and duly disbarred him from politics for five years, he rejected its findings. The case is now being referred to the constitutional court. Mr Thaksin argues that the law should not apply to him, since the voters knew what they were getting when they handed him victory. None of this bodes well for the commission’s future under a Thaksin administration, and there is already talk of fresh legislation to “redefine” the way it operates. Nor does it inspire confidence to learn that the party Mr Thaksin is considering as an ally previously ran what is considered the most corrupt of Thailand’s recent governments.

But all that is to assume there is a Thaksin administration at all. Equally likely is the possibility of a prolonged political crisis whose results are highly unpredictable, or an unstable Thai Rak Thai government led from behind the scenes by an ineligible Mr Thaksin. Army chiefs have already openly spoken of the desire among some of their officers for a coup, though the odds must remain against it, not least because of King Bhumibol’s strong opposition.

Whatever happens, the loss of Mr Chuan’s reformist zeal will be a blow for Thailand, and even for the region. As the events of 1997-98 showed, economic problems can be contagious. Equally, political reform, and reverses to it, can create good or bad precedents for the region as a whole. After setting off the Asian financial crisis, Thailand under Mr Chuan proceeded to offer a good example through its efforts to clean up. In their different ways, the Philippines, where Joseph Estrada has proved to be a populist unable to keep his promises, and Malaysia, which has descended into xenophobia, are setting bad examples. It would be sad if Thailand were to follow suit.

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Letters

Jan 11th 2001
From The Economist print edition

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Bolivia's coca crop

SIR—For a newspaper usually critical of current international drug policies, it must be hard to admit that Bolivia could make such a success of narcotics control ("Coca's second front", January 6th). Your honest report of how this country dismantled a large illicit-drug industry capable of churning out 250 tonnes of cocaine a year deserves praise. When President Hugo Banzer unveiled his national drug plan three years ago there were few believers. He succeeded where others have failed mainly because his strategy was embraced by the majority of Bolivians despite their many other social problems. Attention now focuses on how best to consolidate the results in Bolivia. Now that the ability to enforce drug law is firmly in place, the answer lies in further development, for which Bolivia still needs international support.

Alternative development is already widespread in Chapare, reaching some 50,000 people on 112,000 hectares of land—nearly 40% of the region's population and 50% of land suitable for commercial activity. You are right that replicating this success in Yungas, where alternative development projects are also essential, will not be easy. You are wrong that such projects failed in the past. They were discontinued in the late 1980s when Bolivia's substance-control law allowed cultivation in Yungas of 12,000 hectares of coca intended for traditional uses. Yungas's organic coffee and agro-forestry have enormous potential for growth. In the late 1980s, the UN introduced the coffee varieties that thrive today, repaired most of the roads to carry traffic all year round, built the region's best hospital and created a $5m revolving community-credit system that still operates.

You say that alternative development is providing much less employment than coca; but this compares a licit activity with an illegal trade. A better question would be whether alternative development can be made to deliver a decent livelihood to ex-coca farmers. The answer is yes.

PINO ARLACCHI
Executive director
UN Office for Drug Control and Crime Prevention
Vienna

Zero tolerance

SIR—*The Economist* has not yet suggested "zones of tolerance" for killers, child abusers, drug traffickers, muggers or burglars, yet that is what zones of tolerance for prostitution would promote ("It's their business", January 6th). The street vice trade is inextricably linked with organised drug crime and other offences, and the law must be equally enforced against all offenders. Only residents who have experienced the misery caused by street prostitution will understand the degradation, debasement and violent abuse of the prostitutes themselves.

The Home Office is right to keep kerbcrawling, which feeds the trade, as an arrestable offence and should consider criminalising street prostitution. Only the ignorant, or those who use or benefit from street vice, would condone a return to the Victorian hypocrisy and double standards that tolerated the abuse of women and endorsed child prostitution.

ISABELLA KNIGHT
Birmingham

Alpha plus

SIR—You state in your technology quarterly that the lowly PC obliterated the Alpha processor after Compaq's merger with Digital Equipment Corporation ("In praise of disruption", December 9th). Not so. Compaq's Alpha technology and our PC business serve different markets. Moreover, Compaq is much more than a PC company. What you call the lightning-fast Alpha processors and rock-solid software remains a multi-billion dollar business. Our Alpha processors provided the computing power to produce the first map of the human genome. Compaq's Alpha technology won the contract to construct Europe's largest supercomputer. Jointly with Samsung, we invested a further $500m in the Alpha processor, and agreed with IBM to develop advanced copper-chip technologies for the processor.

The Alpha processor is not a victim of disruptive technology but a driving force behind future technologies. Indeed, Compaq's Alpha systems are revolutionising business-critical computing. They set the standard for cluster-technology units of servers that are scaleable, available and easy to deploy. As you say, to be forewarned is to be forearmed: words such as obliterate should always be used with care.

WERNER KOEPF
Chairman and CEO
Compaq Computer International
Zurich

Paying for slaves

SIR—You discuss the rising demand that government reparations be paid to the descendants of slaves in America ("The children of slavery", December 23rd). Those who demand such reparations from the American government are taking aim at the wrong target. Slavery arose in America when there was no American government. Slavery is a child of British America. It was the British government that allowed and established slavery in its American colonies. America's government ended slavery. Hence any reparations should come from the British government.

CHARLES MILLS
Marietta, Georgia

Advertising standards

SIR—The Advertising Standards Authority is not one of the regulators which are to be brought under the one roof of Ofcom ("New Labour, new economy", December 16th). We are a self-regulatory authority for non-broadcast advertising standards. The Government's white paper thought our approach might hold lessons for the regulation of TV and radio advertising. It says: "The strengths and effectiveness of the Advertising Standards Authority (ASA) system for self-regulation of non-broadcast media...give us confidence that a more co-regulatory approach than the present could be effective." Doesn't sound much like a takeover to me.

CHRISTOPHER GRAHAM
Director-general
ASA
London

Chinese checker

SIR— You say that Douglas Hurd speaks "Mandarin Chinese" ("Parlez-vous Anglais", December 16th). The proper term for the language is Chinese, thus differentiating it from dialects such as Cantonese. The word Mandarin is a Portuguese concoction dating from their occupation of Malacca in the 16th century. When they went to China they used a derivative of a Malay word, *manteri*, itself based on the Sanskrit, *mantri*, to describe the ministers and counsellors they met. They called them *Mandarim*. According to the Shorter Oxford English Dictionary, Mandarin entered the language in 1589.

One of Confucius's administrative priorities on taking office was to classify things by their proper names. I appeal to you not to use the word Mandarin to describe the Chinese language.

UNGKU AZIZ
Kuala Lumpur

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Stop signs on the web

Jan 11th 2001 | SAN FRANCISCO
From The Economist print edition

The Internet was supposed to be all about freedom. That is why governments want to regulate it. It is far from certain whether freedom, or government control, will win the day

IN 1967 Roy Bates, a retired British army major, occupied an island fortress six miles off the English coast and declared it a sovereign nation. He was never sure what to do with his Principality of Sealand. Now, however, the fortress may have found its calling. For several months, a firm called HavenCo has been operating a data centre there. Anyone who wants to keep a website or other data out of the reach of national governments can rent space on the servers that hum in one of the concrete pillars.

In the mid-1990s, Sealand would have been seen as yet more proof that the Internet cannot be regulated. If a country tried to censor digital content, the data would simply hop to a more liberal jurisdiction. These days, the data principality symbolises just the opposite: the days of unrestricted freedom on the Internet are numbered, except, perhaps, in odd places like Sealand.

It seems likely that 2000 will be remembered as the year when governments started to regulate cyberspace in earnest; and forgot, in the process, that the reason the worldwide network became such an innovative force at all was a healthy mix of self-regulation and no regulation. In Britain, the Regulation of Investigatory Powers Act now gives the police broad access to e-mail and other online communications. South Korea has outlawed access to gambling websites. The United States has passed a law requiring schools and libraries that receive federal funds for Internet connections to install software on their computers to block material harmful to the young.

This year, governments are turning their attention to the many jurisdictional problems created by the Internet. These have been emphasised by a French ruling against Yahoo! on November 20th. The French court ordered the Internet portal firm to find some way of banning French users from seeing the Nazi memorabilia posted on its American sites, or face a daily fine of FFr100,000 ($13,000) from the end of February. Yahoo! is fighting the case, even though it has now stopped sales of Nazi memorabilia.

The case could be a taste of things to come. Under a new EU law, for example, European consumers may now sue EU-based Internet sites in their own countries, and the rule may well be extended internationally. The United States has just endorsed the gist of the Council of Europe's cybercrime treaty, which aims to harmonise laws against hacking, Internet fraud and child pornography.

All this is a far cry from what leading Internet thinkers prophesied only five years ago. "You [governments] have no moral right to rule us nor do you possess any methods of enforcement we have true reason to fear," proclaimed John Perry Barlow in his 1996 "Declaration of Independence of cyberspace". Libertarian thinking also ran through early Internet scholarship. David Post and David Johnson, law professors at Temple University in Philadelphia and Georgetown University respectively, argued in that same year that cyberspace was a distinct place that needed laws and legal institutions entirely of its own.

To treat cyberspace differently seemed logical. Because data are sent around the Internet in small packets, each of which can take a different route, the flow of information is hard to stop, even if much of the network is destroyed. It was this built-in resilience that appealed to the Internet's original sponsor, America's Defence Department, and made it the medium of choice for civil libertarians. "The Internet", runs their favourite motto, "interprets censorship as damage and routes around it."

Many online experts argue that, since the Internet does away with geographical boundaries, it also does away with territorially based laws. The transmission of data is almost instant, regardless of where sender and receiver are. Today individuals, as well as multinational companies, can decide in which country to base their websites, thus creating competition between jurisdictions. For example, the United States, thanks to its constitutional guarantee of the right to free speech, has become a safe haven for hundreds of German neo-Nazi sites that are illegal under German law.

Ways of blocking

Yet, for all that, governments are not completely helpless in cyberspace. They have some potentially powerful tools at their disposal. Filtering is one. Software installed on a PC, in an Internet service provider's equipment or in gateways that link one country with the rest of the online world, can block access to certain sites.

Less well known, but potentially more important, is the fact that websites themselves can block users. They do so by employing the same technology that serves up tailored banner advertisements to visitors from another country. They track the Internet service provider's "IP address", the number that identifies computers on the Internet and, in many cases, reveals where a user is.

This technology was the basis for the French ruling against Yahoo! The firm had argued that it was technically impossible to prevent French users from reaching auctions of illegal Nazi memorabilia on its sites. But a panel of three technical experts argued that IP-address tracking could spot more than 60% of French surfers.

Both filtering and IP-address tracking are far from perfect. Filters generally block too much—and too little. And surfers can block IP-address tracking by using services such as Zero Knowledge's Freedom or anonymizer.com. In any case, knowing where a user is is only part of the solution. In the case of Yahoo!, the firm would still have to work out which auctions to block.

But do these shortcomings matter? Jack Goldsmith, a law professor at the University of Chicago, argues that the real world is full of imperfect filtering and identification techniques: criminals crack safes, 15-year-olds visit bars with fake IDs, secret information is leaked to the press. To Mr Goldsmith, there is little doubt that filtering and identification technologies will help to make cyberspace more regulated, because they will allow governments to raise the cost of getting certain information.

China, for instance, has essentially covered its territory with an Intranet isolated from the rest of the online world by software that blocks access to sites with unwanted content. Although clever surfers can find ways to tunnel through the "Great Firewall", it keeps the majority from straying too far online. Most Chinese, in any case, get on to the Internet from work or a public place, where the state can control the software and track what users do, and where they risk being seen if they go to an illegal site.

These technologies are likely to become more efficient. The demands of e-commerce, rather than governments, are driving improvements. Akamai, an Internet firm which speeds up delivery by using a

network of computers to store online content closer to consumers, recently started offering a new service called EdgeScape. This allows websites to determine exactly where a visitor is, at the time he visits, in order to customise content by region or country.

Online companies will certainly also make use in future of a controversial feature called IPv6, designed by the Internet Engineering Task Force (IETF). At present, the anonymity of most Internet users is more or less protected because service providers generally assign a different IP address each time someone logs on. But IPv6 includes a new, expanded IP address, part of which is the unique serial number of each computer's network-connection hardware. Every data packet sent will carry a user's electronic fingerprints.

Force against freedom

The holy grail for e-commerce, however, would be a system in which users had permanent digital certificates on their computers containing details of age, citizenship, sex, professional credentials, and so on. Such technology would not only allow websites to aim their services at individuals, but would let governments reclaim their authority. These solutions to Internet regulation are far off, if they fly at all. But Lawrence Lessig, a law professor at Stanford University, warns that e-commerce firms will push for such certificates and that governments may one day require them.

Nor do governments always need new technology to impose their regulatory muscle. They can also rely on human intervention, just as Yahoo! now intends to do in order to ban auctions of Nazi and Ku Klux Klan items on its site. Although it is coy about details, the company says it will use software to filter out objectionable material and human reviewers to decide borderline cases.

Indirect regulation can also do the job. In Myanmar, formerly Burma, access to the web is banned. To enforce this, the country's military regime imposes jail terms of up to 15 years for unauthorised use of a modem. China recently published sweeping new rules that require Internet companies to apply for a licence and hold them responsible for illegal content carried on their websites. And democratic governments are learning that illegal commercial activity, such as online gambling, can be regulated by controlling credit-card companies and other financial intermediaries.

Perhaps the most promising approach, from the governments' point of view, is co-ordinated action to gain some control over the online world. Faster than might be expected, countries have banded together to fight the threat of jurisdictional arbitrage and to solve conflicts of law. The most straightforward way for governments to do that is to devise a uniform international standard. One early example is the World Intellectual Property Organisation's copyright treaty of 1996, which strengthened international copyright rules.

The Council of Europe—a group of 41 countries which includes all 15 members of the European Union—is putting the finishing touches to the world's first international treaty on cybercrime. The United States, which has also been involved in the negotiations, supports the treaty's main points. Signatories to the agreement, which will probably be presented for ratification this summer, must have laws on their books that allow, for instance, quick seizure of incriminating computer data and its distribution to authorities in other countries.

Such harmonisation is most likely in areas of interest to big multinational corporations (copyright) or where the interests of countries are closely aligned (crime and taxation). On January 9th, the OECD countries announced that they had agreed on a series of rules determining what kind of e-commerce activities made a company liable to taxation: doing business through a website, they concluded, would not leave a company liable to tax in the country from which the website had been accessed. But even most democratic countries are unlikely to agree on standards for more controversial issues, above all freedom of speech. As a result, in many areas, governments are trying "softer" approaches.

In the case of privacy, for instance, the United States and the EU have agreed to disagree. America so far favours self-regulation and sectoral laws, for example for the health-care industry, in order to protect the personal data of its citizens. In contrast, the EU relies on comprehensive privacy legislation enforced by data-protection agencies. The EU's privacy directive also authorises member states to cut off the data flow to other countries, including the United States, which do not have (by its lights) adequate privacy laws.

To avoid a trade war over personal data, both sides devised a "safe-harbour" agreement that went into

effect on November 1st. This protects companies from having their data flow severed, as long as their privacy policies comply with certain principles (such as letting consumers choose how data are used, and allowing access to that data). So far, however, only a dozen companies and organisations have registered with America's Department of Commerce, not least because many firms first want to see whether and how the agreement will be enforced.

The provisions of the Hague Convention could prove more popular. This treaty, which is due to be adopted at a diplomatic conference in June, was first proposed by the American government in the early 1990s to formalise worldwide what American courts already often do: enforce foreign judgments in matters such as intellectual-property claims, contractual disputes and libel. American citizens would thus also be able to collect awards abroad.

Under the treaty, an online store could be liable under laws in any of the 48 member-countries of the Hague conference. That is why the American government is opposing, among other things, a clause that would ensure that consumers could sue businesses in the courts of the country where the consumer lives.

Instead, the Department of Commerce and e-commerce firms are pushing for a different solution: in effect, a new system of private laws, which would avoid the requirement to abide by the laws of the countries where their customers live. As in the Safe Harbour agreement, web firms could seek a certification that they follow certain minimum rules of consumer protection and privacy. Conflicts would be resolved by so-called "alternative dispute resolution".

Lessons from Yahoo!

Will these trends turn cyberspace into a place stuffed with even more rules than the real world, as online companies worry? Or, as free-speech advocates predict, will litigants and governments pursue service providers they don't like, leading to an ever-tighter standard for protected speech?

For now, these fears seem exaggerated. But much depends on how the legal and political battles of the next few years are settled, and how technology evolves. There have been some attempts to steer a middle course. The Brussels Convention, for instance, lets consumers sue a foreign website in their home country only if the site can be proved to have aimed at that country's market.

Many courts are likely to refuse to enforce foreign judgments on matters of widely differing practice, especially where free speech is concerned. For example, Yahoo! will probably successfully defend itself in the American courts, on first amendment grounds, against the French judgment.

And yet this may not be enough. The company plans to go on fighting the legal case. On December 22nd it asked a federal court for a ruling stating that a French court cannot hold an American-based company accountable for breaking French law. Nevertheless, the company has already, in effect, caved in by banning Nazi memorabilia from its auction sites. So whatever the American courts decide, the outcome will be new restrictions on Yahoo!'s American operations.

The firms that will be easiest to regulate and restrict, and which will be subject to multiple jurisdictions, will be those with assets in several countries: big websites such as Yahoo!, Amazon and eBay. But this is nothing new, Mr Goldsmith argues: multinational companies have always faced multiple regulatory burdens. In addition, new technology will make it much easier to comply. Several start-ups such as Mercury2, MyCustoms.com and tariffic.com already offer services that automate the process of making sure that cross-border trade complies with all the various rules.

For Michael Froomkin, a law professor at the University of Miami, all this represents a great irony about the Internet. What was supposed to be an anarchistic and liberating technology may in fact make the world less democratic, by forcing a huge increase in legal harmonisation. This will mostly be pursued by governments and vested interests banding together to enact multilateral treaties, which are difficult for national parliaments to scrutinise or change.

The Hague convention and the cybercrime treaty are cases in point. If the online industry creates its own way of resolving disputes, this could take away jurisdiction from courts worldwide and eliminate existing legal rights. And the fact that the American government let a relatively unknown European organisation develop such an important agreement as the cybercrime treaty is a sign that Washington did not want it widely discussed. Although negotiations began three years ago, the treaty was made public only last

April, in its 22nd draft. Only recently, therefore, were Internet advocacy groups able to get involved. To them, the treaty is a document that “threatens the rights of the individual while extending the power of police authorities.”

Technology’s double edge

The treaty also exemplifies the risk that governments, especially democratic ones, run when they try to assert their authority in the online world. The legal tools and technologies they develop, though useful in that context, may well be abused not only by them but also by authoritarian governments. The means used by France to fight anti-Semitism on the web could also be used to prevent people living in less democratic countries from getting the information they need to strive for basic freedoms.

Those aiming to preserve the Internet’s freedom-loving character also have new technologies to deploy in their battle with government regulators. So-called peer-to-peer networks could make it more difficult to control content on the Internet. FreeNet, for instance, automatically spreads copies of documents all over the web, so that they no longer belong to one place. And SafeWeb will soon launch a service called “Triangle Boy” that allows netizens in democratic countries to turn their PCs into so-called proxy servers. These can then be used by surfers in China, Saudi Arabia or Vietnam to pierce through their countries’ firewalls.

On the Internet, the struggle between freedom and state control will rage for some time. But if recent trends in online regulation prove anything, it is that technology is being used by both sides in this battle and that freedom is by no means certain to win. The Internet could indeed become the most liberating technology since the printing press— but only if governments let it.

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About sponsorship

First blood

Jan 11th 2001 | WASHINGTON, DC
From The Economist print edition

What does Linda Chavez's decision to withdraw her name from consideration for labour secretary augur for the tone of politics in Washington?

ANYBODY who thinks that the ancient British sport of foxhunting is cruel should take a trip to Washington, DC, and study the recent American sport of "Borking". The high-season for Borking comes every four or eight years, when a new president puts together his administration, and at the moment Washington is in full cry.

Reuters

Hunted down

The sport goes something like this. No sooner does the president announce a candidate for this or that job than the opposition and the media start to dig for dirt. An unsavoury remark or a legal infraction is enough. Within seconds, the media puffs it up into the greatest story since Watergate. Senators profess the rumours "very disturbing". The incoming president begins to distance himself from a person he recently described as a moral and intellectual giant. And finally the bloodied body of the victim is carried out of town, a reputation besmirched, a political career ruined.

The most celebrated incident in the history of the sport was the derailing of Robert Bork's nomination for a position on the Supreme Court back in 1987—hence the name. But the victims are not limited to curmudgeonly right-wingers. Bill Clinton lost not one but two potential attorneys-general to the sport—Zoe Baird and Kimba Wood. George Bush senior was forced to ditch John Tower as defence secretary not because of his views but because of his drinking and womanising. The new Bush administration is now the third administration in a row that has lost someone to Borking.

On January 9th Linda Chavez, George Bush's nominee for the post of labour secretary, was forced to withdraw her candidacy. The incoming Bush administration must have expected fierce opposition to Ms Chavez from trade union and minority groups: she is a former Reagan official, who writes a syndicated column in which she fulminates (rather elegantly) against such left-wing shibboleths as affirmative action and minimum-wage laws.

But what they did not expect was the revelation on January 7th that Ms Chavez had allowed an illegal immigrant from Guatemala to live in her house for almost two years—and that the house-guest, Marta Mercado, had occasionally received "spending money" and performed household chores such as ironing and walking the dog. The Bush team briefly put up a weak defence of Ms Chavez. But by Tuesday it was clear that they wanted her to fall on her sword. Mr Bush put out a three-sentence press release expressing his regrets. Ms Chavez made it clear that he had not bothered to speak to her even in private during her ordeal.

Should Ms Chavez have received more support from Mr Bush? There is a good deal to be said in her favour, not least that she regarded "compassionate conservatism" as more than just an abstract theory. She grew up in an impoverished family which was often saved from disaster by the help of friends. She appeared at her press conference on Tuesday surrounded by immigrants who testified to the important role she had played in their lives. ("I call her sometimes my mother," said one.) Ms Chavez clearly went out of her way to help Mrs Mercado, giving her a roof over her head when she was being abused by her boyfriend, finding her a job with a neighbour and helping her learn English: she was not merely a cheap nanny.

But it is nevertheless difficult to see how Mr Bush could have done anything else. Paul Wellstone, a member of the Senate panel that was due to hold hearings on her nomination, rightly pointed out that the problem with Ms Chavez's behaviour is that it "goes to the heart of what the labour secretary is all about": upholding the country's labour laws. The fact that what Ms Chavez described as charity could

easily have been construed as paying an illegal immigrant to do housework was enough to disqualify her.

Ms Chavez also seems to have been less than forthcoming with Mr Bush's people about how much she knew about Mrs Mercado. First, she failed to volunteer any information about the relationship at all. Then she claimed that she had never realised that her house-guest was an illegal immigrant (a claim that Mrs Mercado explicitly denied). Now she says that "I think I always knew"—a statement that is tantamount to admitting that she broke the law against knowingly harbouring an illegal alien. Allegations that she may have tried to influence a former neighbour's testimony to the FBI was the final straw. "Bush doesn't like surprises," was the acid verdict from one of the president-elect's advisers.

The point about Borking, however, is that it is important as well as cruel. Ms Chavez is not the only victim. Another casualty is the Bush team's reputation for running a remarkably efficient transition. Washington is a town where momentum matters, and the Borking of Ms Chavez has robbed the transition of one of its most powerful resources: its sense of inevitability.

Nobody disputes the idea that Mr Bush handled the problem fairly well once it emerged (instead of letting it poison the atmosphere for a month, as Mr Clinton did with Zoe Baird, he eliminated the "distraction" within a couple of days). But the Chavez affair raises doubts about how thoroughly the time-strapped Bush people check their nominees for high office. Ms Chavez calls the process "quite different than the vetting in previous administrations, and I should know something about that—I've been vetted many times before."

All of which hugely raises the stakes for Mr Bush's other two controversial nominations: Gale Norton to run the Interior Department, and John Ashcroft for the attorney-generalship. Leftish pressure groups have been energised by the smell of Ms Chavez's blood. They also now have the administrative advantage of only having two foxes to chase, not three.

The battle begins

But Mr Bush can hardly afford to lose another high-profile nomination. Such a loss would suggest that he is no longer in charge in Washington. It will fuel right-wing suspicions that he is not willing to fight for their people. And it will suggest that loyalty to the Bush dynasty is a one-way bargain: you stand by him when he has to admit to a hidden drunk-driving conviction, but he dumps you as soon as the newspapers discover something unflattering about you.

Beyond all this, there is the question of bipartisanship. Mr Bush's campaign promise to work with Democrats gained urgency following the shenanigans in Florida. If nothing else, the Chavez affair shows that some expectations were too high. The parties were always bound to Bork, just as they were always bound to feud bitterly about emotive subjects such as abortion.

Rather, what seems to be happening is a tug-of-war over where exactly the bipartisan centre stands. For now, both sides are sticking to the notion that Mr Bush, in nominating provocative right-wingers, and the Democrats, in trying to knock them down, are engaging in partisan business as usual. In theory, it will not affect things like education, where Mr Bush might still push through a bipartisan deal (providing he avoids vouchers); he may also cobble together deals on Medicare and Social Security reform.

It is all still possible. But much depends on whether Mr Bush can remain above the fray, as during the Florida recount. (True to form, he even claims that he did not learn about Ms Chavez's problems until Sunday night, despite the fact that they were made public on Sunday morning.) Back in 1993, Mr Clinton soon got sucked into the fray. It is easy for any administration to get mired in the politics of personal destruction.

The problem with this sort of politics is that it makes such good spectator sport: why bother to understand the details of Medicare reform when you can watch somebody being torn apart because they failed to fill in their tax forms? It is also self-replicating. In 1993 Ms Chavez condemned Zoe Baird for employing an illegal nanny. Now she has been destroyed for a similar crime. Those who live by Borking can also die by it.

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About sponsorship

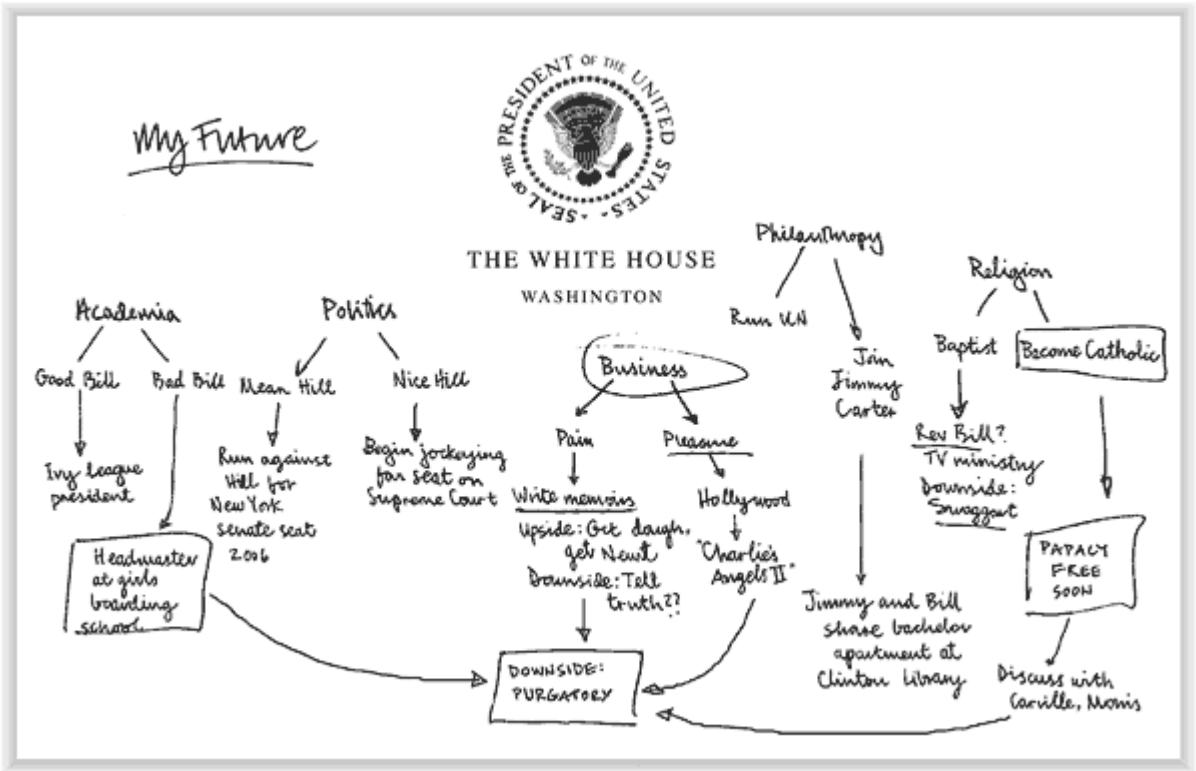
Bill Clinton and George Bush

Rewriting history

Jan 11th 2001
From The Economist print edition

President Clinton has been desperate to build an enduring legacy. Some of his achievements may not outlive even George Bush's first term

HE HAS been a busy lame duck. Bill Clinton's determination to build a legacy, together with his inability to leave the stage quietly, has produced a flurry of last-minute regulations. These executive orders and rules, involving everything from new workplace laws to banning commercial logging in federal forests, are in equal parts guile and paranoia. Regulations imposed by an outgoing president cannot easily or quickly be undone by his successor; they thus form a wall around Mr Clinton's achievements.



Bill Clinton's plans - perhaps

George Bush's intentions are not wholly destructive. (Click the illustration to see one possible version of Bill Clinton's own plans.) Even if he once had grand dreams of a wholesale dismantling of the Clinton legacy, they have probably been tempered by his slightly precarious mandate. At the least, he needs to pick his fights with the congressional Democrats carefully.

On the other hand, eight years on the sidelines have left many Republicans eager to undo Mr Clinton's handiwork. Their main target is the thousands of pages of regulatory code (an estimated 29,000 in the past three months) that were spawned during the Clinton administration. Many of these rules, the Republicans claim, can be rescinded by exactly the same executive orders that first imposed them. Four areas seem particularly ripe for assault:

• **Environmental over-protection**. During Mr Clinton's final years, large tracts of land have become "national monuments" (and thus off limits to business). On January 5th he announced a ban on new roads and commercial logging in some 58.5m acres of federally owned forest land (a quarter of the total). The outgoing interior secretary, Bruce Babbitt, claims that Mr Clinton is the greatest conservationist president since Theodore Roosevelt.

Western Republicans now want Gale Norton, Mr Bush's nominee for the Interior Department, to reverse Mr Clinton's "federal land seizures", opening the land up for commercial use. But, even with executive orders, rescinding such measures will be hard, requiring a Byzantine process of public hearings and eventual court challenges. Reversing green laws would question Mr Bush's claim to be a new kind of Republican; and, as Robert Litan of the Brookings Institution puts it, "it would be like sticking a finger in the eye of Democrats."

• An alternative to killing Mr Clinton's laws outright is for Mr Bush's agency chiefs to ease the the way in which those rules are enforced (in effect, erasing Clintonism by neglect). One area where this might work is **labour regulation**, and, specifically, the new ergonomic workplace regulations implemented in November.

These rules, which were backed by trade unions, protect employees from repetitive-stress injuries and require employers to provide ergonomic programmes. Edward Hudgins of the libertarian Cato Institute calls the rules "some of the most dangerous and costly regulations to come along in the last decade", and the US Chamber of Commerce is going to court to try to overturn them. But, if the White House does little to enforce them, the business lobby's pain may fade.

• Mr Bush may take a similar line on **antitrust policy**. Little of what Mr Clinton did (including the Microsoft suit) can be easily reversed in the new administration. Nevertheless, a large part of antitrust policy depends on how strict the enforcers are. Mr Clinton's antitrust tsars, Anne Bingaman and Joel Klein, were notably interventionist. If you go by what Mr Bush said during the campaign, the new Justice Department may be less zealous in enforcement.

• During the campaign Mr Bush fudged the issue of **abortion**: he made it clear that he would not try to overthrow *Roe v Wade*, the case that underpins legal abortion, but he also promised the religious right that he would bring back some of the tougher federal rules from his father's presidency (restrictions that Mr Clinton lifted during his first week in office). Federal money for research on foetal tissue, for United Nations programmes that finance family planning, and for abortion-counselling at federal clinics, will probably be withdrawn.

Then what?

Looking beyond these four areas, predictions are a lot harder to make. Much depends on the political environment. For instance, should a recession set in, Mr Bush might find it easier to loosen more of the Clinton regulations as a way of stimulating the economy: laxer labour and antitrust laws could plausibly be justified as economic good sense rather than partisan warfare. Already, the current energy shortages and "high" fuel prices help Mr Bush's case for drilling in environmentally sensitive areas, notably Alaska's Arctic National Wildlife Refuge.

The decisive factor in many of these wrangles may be the judiciary. During the election, much was made of Mr Bush's future Supreme Court appointments (with the focus predictably on Democrats' fears that he would appoint conservative jurists who might overturn *Roe v Wade*). But the bigger impact on the Clinton legacy may be the judges that Mr Clinton himself was unable to appoint.

The longevity of a president's laws, regulations and executive orders depends in part on the legal challenges to them. Mr Clinton has surprisingly few of his own appointees to hear those challenges. Republicans have either delayed or blocked the confirmation of several of his nominees to the federal bench. Last month, there were still 80 posts to be filled. When Mr Clinton took office, Republican presidential appointees made up two-thirds of the federal bench. As he leaves office, Republicans still account for 62%.

President Bush, if backed by a just-Republican Senate, is unlikely to have the same trouble. Gradually appointing more and more conservative judges may end up as the way in which the new president does most to undermine the Clinton legacy—and begins working on a legacy of his own.

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About sponsorship

What do you mean, chicken supreme?

Jan 11th 2001 | COLUMBIA, SOUTH CAROLINA
From The Economist print edition

NEARLY everyone in South Carolina agrees that Maurice Bessinger makes great barbecue. But only some of them are now prepared to buy it. Over the past six months, business at his Piggie Park joints in the state has risen slightly; but sales of his pork and chicken meals and his famous sauces through other retail outlets have fallen by 98%. Overall, his business has halved in size. Is he the victim of political correctness or of his own past?

AP

Bye-bye Mr American fry?

Mr Bessinger, a 70-year-old veteran of the Korean war who once ran for governor of South Carolina, used to fly oversized United States flags outside his Piggie Park restaurants. In August, shortly after state legislators reluctantly removed the Confederate flag from the State House dome after decades of controversy, Mr Bessinger replaced his American flags with large rebel banners. It was a protest, he said, against federal power. For the Barbecue King, the rebel flag "is a real Christian symbol...It's fighting tyranny and terror and suppressive government."

A couple of weeks later, a local newspaper reported that, along with "the world's best barbecue", Piggie Park restaurants ladle out political and religious tracts. One, "The Biblical View of Slavery", claims that Africans were lucky to have been brought to America because "what they had over here was far better than what they had over there." The newspaper reminded its readers that 40 years ago Mr Bessinger headed the now-defunct National Association for the Preservation of White People; and that he refused to serve blacks in his restaurants until 1968.

Wal-Mart, Kroger, Publix and a host of other big retailers refused to carry his products, deeming them offensive to many of their customers (almost a third of South Carolinians are black). Mr Bessinger, who insists that he is not a racist, claims that the retailers' decision violates his "freedom of speech and religion". It is also costing him about $50,000 a week. The Council of Conservative Citizens and the South Carolina Heritage Coalition have urged a boycott of Wal-Mart. This has not happened, though supportive conservative whites eating more often at Piggie Park may explain why the restaurant part of Mr Bessinger's business is holding up.

Now Mr Bessinger plans to take his case to the courts. By refusing his products, he argues, the grocery-store chains have violated South Carolina's Unfair Trade Practices Act. He wants them to pay $1m to cover his losses so far, and probably umpteen times that for the damage they have caused him. The grocery chains, say Mr Bessinger and his lawyer, "should be in the business of groceries, not politics." Perhaps he should have taken his own advice.

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Trade policy

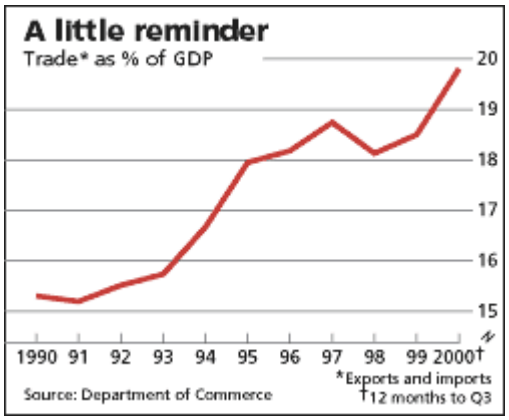
A new face

Jan 11th 2001

AMERICA finally has its new trade representative and, contrary to early rumblings from George Bush's transition team, the post will retain its cabinet seat. Robert Zoellick, a protégé of James Baker who followed the former treasury secretary and secretary of state through the Reagan and Bush senior administrations, also helped the president-elect during the fight for Florida. Now he has his reward.

Mr Zoellick, who will replace Charlene Barshefsky, is a consummate Washington insider best known for his formidable cerebral capacity. His career has meandered between academia, finance and government, but he has always been a forceful proponent of economic considerations in the formation of American foreign policy. Though Mr Zoellick has little experience in trade negotiations, his high profile will demand the respect of other countries' delegations.

It remains to be seen, however, whether Mr Zoellick will truly have the president's ear, as Mickey Kantor and, eventually, Ms Barshefsky did in the Clinton administration. Donald Evans, Mr Bush's nominee for secretary of commerce and the chairman of his last three campaigns, is much more a member of the president-elect's inner circle. And Condoleezza Rice, Mr Bush's national security advisor, apparently wants to have some clout in economic policy.



Mr Zoellick's reputation, and the support of Mr Baker, should make him a worthy opponent in any jousting with Mr Evans or Ms Rice. But America plainly needs a single voice on trade policy. With oversight of trade diluted among a triumvirate in Washington, the European Union's trade commissioner, Pascal Lamy, could become the trade world's new de facto leader.

Under Ms Barshefsky, by contrast, there was never any doubt as to who was the face of American trade policy in international discussions. Mr Lamy and Ms Barshefsky formed a powerful coalition when they agreed with each other, and did battle as equals (his intellectual craftiness against her tough-as-nails negotiating) when they did not. Mr Zoellick will have to assert himself, and his independence, to follow her act.

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Indian tribes

Canyon life

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From The Economist print edition

BLUE-GREEN waters cascade over precipices 200 feet high; massive cottonwood trees and cacti grow alongside towering red cliffs; and, in the middle of it all, a village nestles under fig and peach trees. It sounds like a travel brochure for Paradise. But for the Havasupai Indians who live there, in a south-western branch of the Grand Canyon, the place more often seems like prison.

Fast train to Supai

The Havasupai (their name means “People of the Blue-Green Waters”) are one of the smallest tribes in the south-west, and the only one to live on the canyon floor. Most of the 636 members live in the village itself. Unlike the many tribes which have turned to casinos for income, they live by tourism, running a rustic camp-ground along the crystal-clear Havasu Creek and an air-conditioned lodge in the village. The tribe also operates a small market and a café, which serves Navajo fry-bread to the tourists and burgers and French fries to the locals.

Most visitors walk or ride in. It takes six hours to hike from the canyon rim to the village, or three hours by mule. For the lazy, two helicopter companies based at Tusayan, near the south rim of the canyon, offer five-minute flights. The number of visitors is limited by how many can stay at the lodge and the camp-ground, and the tribe has no immediate plans to expand either.

The Havasupai used to roam freely between the canyon—where in summer they grow vegetables, corn and grass for their horses—and their plateau lands, where they once hunted elk and gathered berries. But when the Grand Canyon National Park was created the law confined them to the canyon floor, a tract of 188,000 acres out of their original 2m. Only since the mid-1970s have they had their plateau lands back.

Roland Manakaja, whose great-grandfather was Chief Manakaja, the tribe’s last traditional chieftain, says the creation of the park had a disastrous effect on the tribe. “Our people couldn’t go up [on the plateau] and hunt like they used to,” he says. “They couldn’t go to the traditional gathering places.” As a result, says Miguel Vasquez, a professor of anthropology at Northern Arizona University in nearby Flagstaff, a “sense of confinement” still dogs the tribe today.

Most of the food eaten in Supai is no longer grown there. Even watermelons, vegetables and fruit are shipped in from nearby cities, together with packaged American foods and case after case of canned sodas. The Postal Service, using mules and helicopters, has kept the place going since 1896. Everything consumed by the tribe comes in that way, and every piece of refuse must be flown out. Although the tourist facilities bring in revenue, they cost a lot to keep up.

The Havasupai have tried hard to retain their native culture. All the young people in the village speak the language, a rarity among American Indian tribes. But they are more likely to listen to rap or reggae than to native music. They wear black T-shirts and jeans and sport Walkman-like cassette players; and, much of the time, they are glued to television sets connected to the two-way satellite dishes (carrying the Internet) that invaded the village a few years ago.

Nor is that the worst of it. On the side of the rodeo reviewing stand in the heart of the village is a gang tag, “Supai Crips”. Drug and alcohol abuse are common, even though the tribe has declared the village dry. Patchy employment is part of the problem. The village’s economic lifeline, tourism, dies in the winter months. Men who are horse- and mule-packers during the spring, summer and early autumn have little

or no employment in the off-season. Incomes fall dramatically.

Supai has no hospital, and the clinic is rudimentary. It also has no secondary school. Teenagers in the village must either go to one of the Bureau of Indian Affairs boarding schools (the nearest are in Oregon and southern California), or move in with family members in a larger city and go to public schools. The dropout rate is 75%, and some who leave the village never return.

Mr Manakaja points out that the Havasupai never wanted to embrace tourism; it was the Park Service that first asked them to open the falls to the public. But now that they have gone that way, they are trying to go a bit further. This year, for the first time, the old plateau hunting grounds will be opened to hunters, who will be allowed to go after elk at $12,000 per kill. Mr Manakaja says he hopes this will help revive the tribe's traditions. "That way," he says, "we could still have our Indianness and an economy as well." And a chance to heave themselves away from the prison of the canyon floor.

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About sponsorship

The labours of Lott

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THERE are presumably a few worse jobs in Washington, such as helping Hillary Clinton write the bit of her memoirs dealing with Monica Lewinsky. But being majority leader of a Senate that is split 50-50 must come fairly close to the bottom of the heap.

Trent Lott, a Mississippian senator famous for his impeccable clothes and made-for-television hair, assumes this uncomfortable position on January 20th, when Dick Cheney takes over the vice-presidency and with it the tie-breaking vote in the Senate. Mr Lott will keep the trappings of power—the grand title and extra-large office—but all too little of the substance. Marshall Wittman, a congressional analyst at the Hudson Institute, says that Mr Lott is that most forlorn of figures, “a king without a kingdom”.

Mr Lott has always been a politician’s politician, rather than a voters’ one. His legislative skills are widely praised by other lawmakers, but put him in front of an audience and he is plainly no Cicero (or indeed Clinton). George Bush went to great lengths to keep out of his way on the campaign trail. Now two uncomfortable facts make his position particularly difficult.

The first is that he bears as much responsibility for the current mess as anybody. His key calculation during his first four years as majority leader was that the best way to deal with the Clinton administration was to tie it up in procedural knots and wait for the clock to run out. As a result, Republican senators went into November’s election with few legislative achievements to boast of—and five of them lost their seats. The second is that Mr Lott has lost three of his most trusted lieutenants: Paul Coverdell of Georgia (who died last July), Connie Mack of Florida (who has retired) and Slade Gorton of Washington (who lost his seat in one of the closest fights of the election).

The best thing that can be said for Mr Lott is that he has swiftly come to terms with reality. On January 5th he and Tom Daschle, his Democratic equivalent (and the majority leader in the Senate while Al Gore still holds the casting vote), announced an unprecedented power-sharing deal. Republicans will continue to chair all the Senate’s committees, but otherwise both parties will get an equal share both of committee seats and Senate resources. (The minority party sometimes ends up with just a third of both.) Mr Lott will also resist using procedural motions to cut off debate or block votes on amendments.

This decision was probably the only alternative to gridlock. It eliminated the possibility that a senator would add his name to the formal protests mounted by several members of the House to the Florida election count, thereby averting another mini-constitutional crisis. It also cleared the way for the Senate to take action on Mr Bush’s cabinet nominees and his legislative agenda. But it is worth noting just how much Mr Lott has sacrificed. The additional millions that have been handed to the Democrats will be invaluable in the war of ideas and expertise (particularly now that they have lost the vast resources of the federal bureaucracy which have been at their disposal over the past eight years). And the procedural concessions will make it much easier for Democrats to dominate the legislative agenda or add Democratic bells and whistles to Republican bills.

Mr Lott will not have to wait long before the Democrats use their new-found money to push through their pet measures, such as a patients’ bill of rights (which failed last time by a single vote) and a minimum-wage increase. But his biggest problems will probably come from his own ranks.

One challenge is that those ranks could be diminished at any moment. Jesse Helms (now 79 years old) and Strom Thurmond (98) are both particularly frail. Another problem is that the ranks are very far from

disciplined. The right, already suspicious of the power-sharing deal, is hypersensitive to signs of a sell-out. And several senators are keener on pushing their own agendas than kowtowing to Mr Lott. John McCain, for example, promises to bring his campaign-finance reform bill to the Senate floor in the next few weeks. This bill is deeply unpopular with the rest of the Republican establishment, but could well command the 60 votes that would make it filibuster-proof.

So is Mr Lott paralysed? He will certainly have to give up any dreams he might have had of putting his name on great legislation. And he will have to curb his legendary appetite for neatness. (He is said to turn up to meetings with colour-coded charts.) But he may still be able to serve one useful function: that of water-carrier for the White House.

Being a water-carrier rather than a king may sound a bit of a come-down. But the role suits both Mr Lott's personal qualities and the Republican Party's broad agenda. The Republicans are instinctively presidential rather than congressional: even if Mr Lott controlled a reasonable majority in Congress, rather than relying on Mr Cheney's vote, the party would have looked to the White House for leadership. And Mr Lott is instinctively a deal-maker rather than an agenda-setter.

Mr Lott learned his political skills as a whip in both houses. He prides himself on his ability to get along with people of all political persuasions. He won the Republican leadership with the votes of moderates such as Olympia Snowe of Maine as well as those of southern conservatives. Joe Lieberman complimented him for playing "a unifying, balancing, civilising role" in the impeachment crisis. He and Tom Daschle even exchanged telephone calls and faxes on Christmas eve—a miracle in a town where House leaders from opposing parties may go for months without talking.

Mr Lott's deal this week was clearly a triumph of pragmatism. But the big question is whether it has created an environment in which pragmatism can lastingly flourish. Moderate figures like Ms Snowe and Louisiana's John Breaux have a chance to use the Senate's committees, which are now more powerful than ever, to fashion consensus on important areas such as welfare, health care and education. But Linda Chavez's decision to withdraw her name as secretary of labour and the growing row over John Ashcroft's nomination are powerful reminders that there is far more to politics than pragmatism. And that could be Mr Lott's undoing.

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Outcasts

The voters could have known

Jan 11th 2001 | HENNIKER, NEW HAMPSHIRE
From The Economist print edition

COMPARED with the glamorous thrill of the presidential primary, state elections in New Hampshire do not grip the voter: all those unfamiliar names, way down at the end of the ballot. That, at least, is the current explanation of how Tom Alciere managed to get elected to the state legislature last November. After an uneventful campaign of hand-shaking and sign-waving, this Republican from Nashua, who had lost several previous bids for office, won a seat by 55 votes. Whereupon his constituents learned that he was an advocate of killing policemen.

Mr Alciere had not tried to conceal this. He posted vigorous notes on Internet discussion boards; one, in October, declared that “nobody will ever be safe until the last cop is dead.” He often joined in radio talk-shows, sometimes describing himself as “Angry Tom”. But in his election campaign Mr Alciere was much mistier: he promised only to fight for individual freedom. He later said that he did not bring up his opinions about the police because nobody asked.

This has prompted some soul-searching among journalists, and others, who failed to spot Angry Tom behind Candidate Tom. Mr Alciere blames the voters. In one Internet message, he called his constituents “a bunch of fat, stupid, ugly old ladies that watch soap operas, play bingo, read tabloids and don’t know the metric system.” These people, be it noted, are part of the New Hampshire electorate that is so often admired for its maverick charm, wielding much power in the choice of America’s presidents through its first-in-the-nation primary.

The point is that New Hampshire pays attention to presidential races, but considers its own state law makers pretty unimportant. As Ken Gidge, a radio talk-show host, puts it, quite possibly “a dog-catcher in a particular community has more power.” New Hampshire’s legislature has 400 members who face re-election every two years and earn an annual salary of $100. The legislature is a “dinosaur with a tiny little brain”, a symbol of New Hampshire’s disdain for government, says Arnie Arnesen, a political-science professor at Franklin Pierce College. She claims that, in the past, some of its members have been found to have mental problems. No doubt others held opinions as pungent as Mr Alciere’s; but they did not have an Internet on which to publicise them.

At first, Mr Alciere refused to leave his seat, insisting he was “not a nut”. Then he said that he would step down, if 11 law makers pledged to bring his pet bills to a roll-call vote. He wants to legalise drugs, ban involuntary commitments to mental institutions, and replace state schools with online education. On January 10th, a compromise was reached: another freshman Republican agreed to submit eight of his proposals, and Mr Alciere resigned. Some think he should have been kept around—to remind voters that they sometimes get what they deserve.

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Argentina's distant allies and the fiscal gap

Jan 11th 2001 | BUENOS AIRES
From The Economist print edition

If the country is to turn an economic respite into recovery, President de la Rua and his former vice-president must try to work together

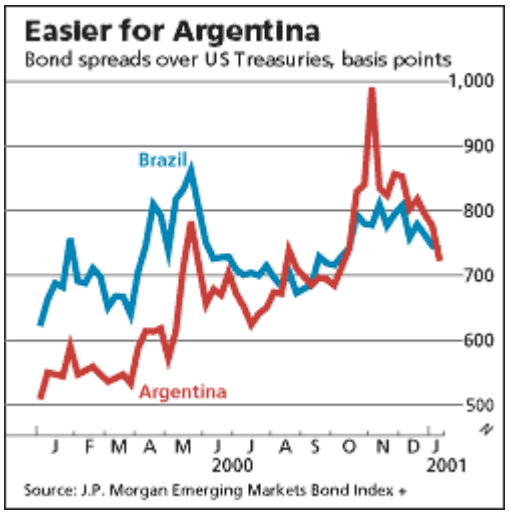
JUST two months ago, investors were seized with panic about Argentina. They feared that it would default on its debts, or even that its fixed exchange rate might collapse. Now, as Argentines laze on the beach for their summer holidays, calm has returned. Fernando de la Rua, the country's hapless president, is exuding quiet confidence. His government's propaganda is almost triumphalist, its new slogan proclaiming: "Risk-free. Argentina is growing".

EPA

One reason for the change of mood is a large dollop of IMF help. On January 12th, the IMF board was due to approve a loan agreement guaranteeing Argentina's borrowing needs for this year. The Fund is itself offering $13.7 billion. In all, the government can count on up to $39.7 billion, though some $20 billion of this is in promises of support by banks and pension funds.

But a second reason is that for the first time since Mr de la Rua took office in December 1999, events in the rest of the world are starting to help his country's beleaguered economy, offering hope that it may at last start to pull out of a two-year slump.

Argentina's inflexible currency-board scheme not only pegs the peso at par to the dollar but limits the money supply to the level of hard-currency reserves, in effect turning monetary policy over to the United States' Federal Reserve. So last week's unexpected interest-rate cut by the Fed was of direct help to Argentina. The spreads on Argentina's bonds (the premium they pay over those of the American Treasury) promptly fell below those on Brazil's bonds for the first time in three months (see chart). This week the government placed three-month treasury bills in the local market at an interest rate of 8.5%, down from 16% in November.



Helpful, too, is the weakening of the dollar against the euro and other currencies, which boosts Argentina's exports. And international prices for its wheat and soya crops have recently risen after a long slump.

All this gives Argentina respite and, crucially, the hope that the economy will grow, thus meeting the IMF's target for the fiscal deficit of $6.5 billion this year. But though the country has a clear opportunity, it still faces risks. Primarily political, rather than economic, they centre on whether Mr de la Rua's unpopular Alliance government, which faces a congressional election later this year, can stick to the medium-term fiscal reforms it has agreed to as the price of IMF support.

Some of the fiscal measures were enacted by decree by Mr de la Rua after he failed to gain support for them in Congress. These include one measure to delay the age of retirement on full pension for women, another to abolish the state minimum pension and replace it with a sliding scale, and a third to reform health schemes run by trade unions. These decrees are being challenged in the courts. The pension-reform decree may also be overturned in Congress, when it reconvenes early in March.

The readiness to defy the president derives partly from the knowledge that Argentines are fed up with austerity. But Congress also knows that Mr de la Rua's coalition government has been badly hit by the

resignation in October of the vice-president, Carlos Alvarez, the leader of Frepaso, the Alliance's left-leaning junior partner. It was his departure that caused the crisis of confidence that obliged the government to turn to the IMF.

Mr Alvarez maintains that his party still backs the Alliance. But instead of battling for the economic measures, he has spent much of his time recently playing tennis, before disappearing last week for a holiday in Argentina's lake district. But neither has Mr de la Rua shown much interest in Mr Alvarez's help. At a meeting last month, Mr Alvarez presented some policy proposals, which have been politely ignored.

Many Frepaso politicians are disillusioned by their experience of government. Not only has the Alliance failed to achieve economic growth but, more culpably, it has done little to fulfil its promises to get tough on corruption. It was that failure which caused Mr Alvarez to storm out.

Some Frepaso leaders, such as Enrique Martinez, the secretary for small and medium-sized business in the economy ministry, argue that the party must stick with the Alliance, while trying to change it from within. But others have moved into opposition: "The Alliance is already broken," says Alicia Castro, a Frepaso congresswoman.

Without Frepaso's 34 seats, Mr de la Rua would lose his working majority in the 257-seat lower house of Congress, and the effort by the opposition Peronists to overturn pension reform might succeed. So far, only a few Frepaso legislators have defected. Preventing more from following them depends on Mr Alvarez. He once said that approval of pension reform would mean his party's exit from the Alliance.

But he may have changed his mind. What Frepaso does depends on Mr Alvarez's calculations regarding the election, due in October, in which the Senate and half the lower house will be up for re-election. Mr de la Rua's people are counting on a reviving economy to pay electoral dividends.

But will it? Any growth will take a while to make itself felt. But on the other hand, Argentine voters have a habit of punishing those seen to threaten economic stability. Many did not approve of Mr Alvarez's decision to walk away from government.

The chances are that Mr de la Rua will manage to defeat efforts to overturn his decrees. But even if the Alliance stumbles on, its long-term prospects are poor. After the holidays, Argentina faces a messy, noisy few months of pre-electoral wrangling. Better though the country's economic prospects now are, it is too soon for investors to relax.

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More surprises in Peru

Jan 11th 2001 | LIMA
From The Economist print edition

AFTER a turbulent year, which saw first a rigged election and then the sudden downfall of its victor, Alberto Fujimori, most Peruvians were hoping that quieter times would lie ahead. They may not get them. In a last-minute scramble before this week's deadline, ten candidates registered for the presidential election due on April 8th. Another seven applied, but may not be able to gather enough signatures to be accepted. And nobody has much idea which of them might win.

Alejandro Toledo, Mr Fujimori's main challenger last year, starts ahead, with around 25% in the opinion polls. An economist of Andean Indian origins, he has the sympathy of many poorer Peruvians, but his impulsiveness is distrusted by the rich. He has been courting businessmen, and trying to woo the middle ground. But he seems unlikely to secure the 50% of the vote required to avoid a run-off.

Most of the other candidates, with little money and weak party organisation, are battling each other to get into the run-off, hoping that they can win it by capturing the centre. A favourite of Lima's intellectual elite is Jorge Santistevan, formerly Peru's human-rights ombudsman. He has the support of Alberto Andrade, the capital's mayor, but has fallen back to only about 5% in some opinion polls.

Some polls show a slight rise in support for Lourdes Flores, an experienced conservative democrat. In a daring, or perhaps desperate, effort to broaden her appeal, the prim Ms Flores has chosen as her running-mate the head of the construction-workers' union, known for its street-fights with the police. Another hopeful is Fernando Olivera, a congressman who made public a video which showed Vladimiro Montesinos, Mr Fujimori's intelligence chief, bribing an opponent. The only Fujimori loyalist in the pack is Carlos Boloña, a former economy minister who is liked by investors, but who is tainted by his links to a corrupt regime.

The big surprise is the candidacy of Alan Garcia, Peru's president from 1985 to 1990, who fled abroad in 1992. In his absence, he was charged with corruption; his supporters claim he was a victim of Mr Fujimori's rigged courts. For most Peruvians, Mr Garcia is an unwelcome reminder of a past nightmare: an irresponsible populist, he bequeathed hyperinflation and a shrivelled economy, as well as unchecked guerrilla insurgencies. But he is a charismatic speaker and, since he is still only 51, he may be planning for the future.

Even so, Mr Garcia will puncture the consensus in favour of Mr Fujimori's free-market economic policies. He may also introduce an unwelcome edge of confrontation. "After last year's circus, people want no more election surprises," says Alvaro Rojas, a political commentator.

Mr Fujimori's antics meant that last year was a wasted one for the economy. Peru can ill afford more uncertainty. But since Peruvian voters have a habit of making up their minds at the last minute, that is what the country now faces.

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Chile

Pinochet climbs down

Jan 11th 2001 | SANTIAGO
From The Economist print edition

AUGUSTO PINOCHET did something this week that he had wanted to avoid. After a week of shilly-shallying, on January 10th the ex-dictator was driven to the Santiago military hospital for the first of several days of court-ordered psychological testing, designed to establish whether he is mentally fit to stand trial for various atrocities committed during his rule.

Reuters

Testing for insanity

With that, the 85-year-old general's battle with Chile's courts took another step towards conclusion. But more delaying tactics may lie ahead. Juan Guzman, the judge who is investigating more than 200 cases against the general, says he now hopes to question him on January 15th. General Pinochet's lawyers are still making efforts to stop that. They have tried, and failed, to have Mr Guzman taken off the case. Last month, the Supreme Court overturned an arrest warrant issued by Mr Guzman against General Pinochet because he had not been questioned. It is unlikely to do so again.

The former dictator's brief defiance of the courts this month served to show how isolated he now is. For a week, he had remained in his seaside holiday home. But this stance drew no support from Chile's conservative opposition, nor even, it seems, from the army.

It coincided with an admission by the armed forces that the bodies of 130 of the 1,200 people who disappeared during General Pinochet's 1973-90 dictatorship had been thrown into the sea or into Chile's lakes. The information was not a surprise, but it was still the first time that the army had admitted it. Even conservative politicians were moved to talk of "atrocities", rather than their usual, euphemistic, "excesses".

The admission was the result of government-sponsored talks between the armed forces' representatives, human-rights lawyers and church leaders, which began in 1999. President Ricardo Lagos hopes that the talks will allow Chile to close its debate about the dictatorship. But the results have failed to satisfy the families of the "disappeared". "The information is so slim that it will be difficult to verify independently," complains Sebastian Brett of Human Rights Watch, a lobby group.

Some see its release as a ploy to put an end to court cases against former military officers. In cases involving "disappeared" people, judges have recently begun to accept charges of "permanent" kidnapping, as a way of circumventing an amnesty law left in place by the dictatorship for offences during its first five, most violent, years.

Concerned as much about these cases as about General Pinochet's fate, the armed forces also think this amnesty should mean immunity from charges, as the dictatorship intended, rather than the courts' present interpretation of immunity only from punishment. The military chiefs pressed this view on Mr Lagos and on the president of the Supreme Court at a meeting last week of the National Security Council. The council is a Pinochet-era hangover, which the officers had originally insisted on convening to discuss the arrest warrant against the dictator.

Until now, the army has used the threat of withholding information about the "disappeared" to put pressure on the government. With that information, or some of it, now released, the cards are in the government's hand. "The irony is that it doesn't seem to know what to do with them," says Ricardo Israel, a political scientist at the University of Chile.

Mr Lagos's options are to insist on digging up the truth about the dictatorship and on bringing the guilty to trial—which would distract the government from other priorities—or to sponsor a national agreement to stop prosecutions concerning the atrocities of the Pinochet era, which would offend its left-wing supporters. Either way, General Pinochet himself may still complicate things.

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Latin America and the United States

South from Texas

Jan 11th 2001 | MEXICO CITY AND SAO PAULO
From The Economist print edition

George Bush inspires high hopes, and a few fears

LATIN America often remains an afterthought of American foreign policy. So it seems once again. The senior foreign-policy posts in George Bush's administration have gone to officials steeped in East-West relations and the Middle East. It will be days, if not weeks, before the second-tier officials who handle Latin America are appointed. And in contrast to the liberal internationalism of Bill Clinton, some Republicans are crude bashers of drugs, migrants and softness towards Cuba.

EPA

Expertise in Mexican affairs

Odd, then, that Latin American governments view a Bush administration with more hope and enthusiasm than their counterparts elsewhere. The surname helps. Relations with Latin America were a big success during the presidency of George Bush senior: talks over the North American Free-Trade Agreement (NAFTA) were begun; the idea was launched of a Free-Trade Area of the Americas (FTAA); and Central America moved from war towards peace.

Then there is Mr Bush himself. A novice in world affairs, he has a Mexican sister-in-law and made three visits across the border as governor of Texas. Unlike Al Gore, Mr Bush devoted a campaign speech to Latin America—from which the first sentence of this article is a direct quote.

The first test of Mr Bush's promise that Latin America will not be an afterthought will come on trade. In April, he is due to meet the region's leaders at the third Summit of the Americas, to be held in Quebec. Latin American governments will be disappointed if by then he has not sent a bill to Congress seeking the "fast-track" authority required to clinch trade deals. This was denied to Mr Clinton, but is essential if the FTAA is to start by 2005, as planned.

On paper, Mr Bush has a good chance of getting fast-track. But there are other reasons to worry. Brazilian officials were dismayed when Don Evans, Mr Bush's choice for secretary of commerce, gave a swift promise to defend steel makers against "unfair competition". Brazil fumes (and rightly so) over anti-dumping and other punitive duties on its most competitive exports, including shoes and orange juice as well as steel. It is alarmed that the United States Trade Representative, who handles trade negotiations, might be stripped of cabinet rank and subordinated to the Commerce Department—a bastion of protectionism.

Swift decisions will also be needed on Colombia. Mr Clinton organised $1.3 billion of mainly military aid for Plan Colombia, a scheme aimed at fighting drug traffickers and at strong-arming the left-wing guerrillas who protect them into making peace. Many Latin Americans, and Europeans, see this as likely to exacerbate Colombia's conflicts, while driving the drug business into neighbouring countries and doing little to tackle murderous right-wing paramilitaries.

Mr Bush backs Plan Colombia, and met President Andres Pastrana in October. Some Latin Americans fear an escalation, in which American troops could become involved in counter-insurgency or drug-bashing. But Colin Powell, the new secretary of state, is well-known for his reluctance to commit American forces to foreign conflicts. Michael Shifter of Inter-American Dialogue, a Washington think-tank, argues that General Powell has an opportunity, and may have the inclination, to make American policy less beholden to the anti-drug lobby, and instead to recognise the complexity of Colombia's problems by helping it both to try to find peace and to make its armed forces and police stronger and more professional.

American relations with Mexico, though much warmer than a generation ago, are still prickly. Under Mr Bush and Mexico's new president, Vicente Fox, they could become less so. Both are former businessmen. And Mexican politicians are now prepared to recognise that such issues as migration and drug-trafficking are problems for their own country, as well as for the United States, according to Rafael Fernandez de Castro, the editor of *Foreign Affairs en Español*, a Mexican journal.

Mr Fox hopes that the United States will agree to better treatment of the 300,000 or more Mexicans, legal and illegal, who go north each year. But he also wants the migrants to keep their ties with home. He plans incentives for their families to invest remittances (some $7 billion last year) in setting up businesses in Mexico, instead of buying cars and washing machines.

Likewise, the drug trade brings violence and corruption, and rising drug-taking, south of the border. Mexico, like the rest of Latin America, despises the "certification" process, under which the American Congress stands in hypocritical judgment on the efforts of others to fight drugs. But Mr Fox also hopes for more American co-ordination on fighting drugs, and on cleaning up environmental damage along the border.

Elsewhere in the region, Haiti badly needs aid, but America and other donors suspended it after questionable elections last year. Mr Bush is unlikely to restore it, unless Jean-Bertrand Aristide, the incoming president, embarks on reform.

Mr Bush may also be less tolerant of the anti-American gestures of Venezuela's Hugo Chavez, though he would be wise not to be provoked by them. And he has talked tough on Cuba. But policy towards Cuba, and especially the American embargo against the island, nowadays lies mainly in Congress's hands. Last year legislators eased restrictions on sales of food and medicine and on travel to Cuba. There is growing bipartisan support for lifting them altogether. That would be welcomed in Latin America, though not perhaps by Fidel Castro, who could no longer pose as the defender of his country against *yanqui* aggression.

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Back to business in Thailand

Jan 11th 2001 | BANGKOK
From The Economist print edition

By electing an untested billionaire as prime minister, Thailand has apparently abandoned political reform and opted for uncertainty

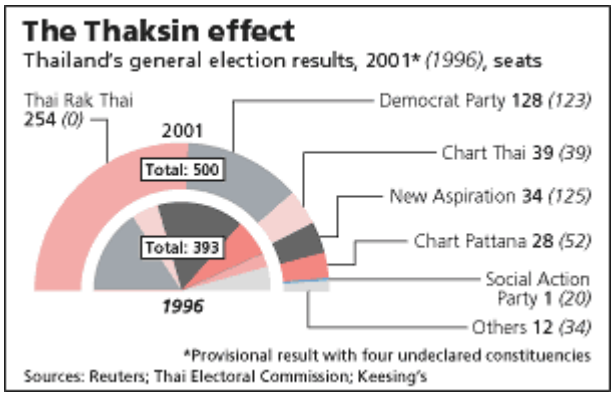
THE full results will not be known for weeks, and up to 100 ballots will have to be held again. But Thailand awoke on January 7th to find it had thrown out of office the man who has steered it through the last three crisis-ridden years, and replaced him with Thaksin Shinawatra, a highly successful businessman with limited experience of politics, who may well be barred from parliament under anti-corruption laws.

The election was, even by Thai standards, rather murky. The Nakhon Ratchsima Rajabhat Institute, which studies poll fraud, estimated that at least 20 billion baht ($465m) in bribe money was given out during the campaign and on election day. Forty-three Thai politicians and political canvassers were murdered in the weeks running up to the election.

The outgoing prime minister, Chuan Leekpai, tends to be viewed more favourably abroad than at home and seems to have paid the price for failing to lift Thailand more dramatically out of economic crisis and return it to near-double-digit growth. Cashing in on the unpopularity of Mr Chuan's Democrats, Mr Thaksin's two-year-old Thai Rak Thai (TRT) party unleashed a powerful campaign. While airing flashy commercials, it was simultaneously recruiting influential provincial power brokers, including a number of retreads from some of Thailand's most discredited parties. TRT, which has gained an unexpectedly large mandate and knocked the Democrats for six, needs only one main coalition partner.

That will be the New Aspiration Party, led by the former army chief, General Chavalit Yongchaiyudh, in whose dismal but short-lived government Mr Thaksin served as deputy prime minister. So the new administration will be less hobbled by having to please small parties than past Thai governments. TRT and the NAP are a good fit: the general is popular in the provinces, but is seen as a bit of a country bumpkin in Bangkok, whereas Mr Thaksin has attracted votes from aspiring young urbanites.

Having few partners will suit Mr Thaksin, who describes himself as above all a manager, with few political bones in his body. Judicious use of his political connections and a nose for the deal helped him make a fortune in the telecoms business, and he has promised Thais a more decisive, corporate style of leadership. Mr Chuan was perceived to have run out of steam.



But opinion is divided on whether TRT's policies will be any good for the country. Mr Thaksin says he will weed out corruption, improve Thailand's education system and encourage the Internet economy. His party lionises him as the man who launched Thailand's first satellite, as if sorting out the economy could be no harder than that. On his website, he describes himself as "the knight of the Third Way".

But he has also made risky campaign promises, including pledges to give 1m baht to each of Thailand's 70,000 villages and to impose a three-year moratorium on interest payments by indebted farmers. Analysts rightly question where the money will come from, since the government is already running a debt that amounts to 60% of GDP. A recent report by the Standard Chartered bank warned that TRT's programmes might push the government debt to more than 100% of GDP.

"Thaksin is, in a way, promoting an Italian-style model, which focuses on what Thailand does best, agriculture, while upgrading some high-tech sectors," says Chris Baker, author of several books on Thai politics. The comparison with Italy is apt: Mr Thaksin resembles no one more than Silvio Berlusconi, Italy's once and probably future prime minister. Both men amassed vast fortunes, which they then used to create new political movements as vehicles for their own ambitions. And like Mr Berlusconi, Mr Thaksin has now bought himself a television station, which tends to put out a distinctly favourable picture of its owner.

Also like Mr Berlusconi, Mr Thaksin has his troubles with the clean-government people. On December 26th, the National Counter-Corruption Commission, whose mandate to ferret out graft was significantly strengthened under Mr Chuan's administration, found Mr Thaksin guilty of concealing assets worth tens of millions of dollars. Some, including a golf course and shares in his main electronics company, had been transferred to his drivers or his maids, allegedly to avoid scrutiny. Implausibly, Mr Thaksin said his failure to report all his holdings was an oversight. He blamed his wife for the transfers.

If the NCCC's decision is upheld by Thailand's constitutional court, which will rule on the matter within two to three months, Mr Thaksin faces being banned from politics for five years, a fate which last year overtook the then minister of the interior. It is thought unlikely that the constitutional court will overturn the ruling against Mr Thaksin: in all the eight corruption cases so far referred to it, the court has upheld the verdicts.

Many analysts fear that, without Mr Thaksin, who dominated party meetings, TRT's inner circle would be unable to govern. In the paralysis, the stockmarket, which at first responded favourably to TRT's large victory, would fall, possibly triggering a second recession. If so, the Democrats would be waiting in the wings. Twice the Thais have turned to Mr Chuan and his Democrats in their hour of need: after the bloody army uprising of 1992, and again after the collapse of the baht in 1997. Quite possibly, they will do so again.

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Talking at last to Aung San Suu Kyi

Jan 11th 2001
From The Economist print edition

FOR Buddhists it is important to earn merit in this life, so as to be rewarded in the next one. In Myanmar, where Buddhist temples and monks proliferate, merit is attained through good deeds such as the release of caged birds and trapped fish. Believers buy them at roadside stalls and set them free. Now it seems that Myanmar's military junta, which for more than ten years has repressed a democracy movement and locked up its leaders, may be changing tactics. The generals appear to want some merit themselves by beginning talks about democracy, and perhaps even by releasing political prisoners.

EPA

A caged bird

The United Nations announced this week, with Myanmar's blessing, that contact had been made between the military men and the leader of the country's democracy movement, Aung San Suu Kyi. She has been under what amounts to house arrest since September last year for staging a series of protests on the edge of Yangon, the capital, complaining that her opposition National League for Democracy (NLD) was being strangled by the government. For years the junta has dismissed Miss Suu Kyi as an agent of "foreign powers", or as an irresponsible "little sister". It has always refused to contemplate a political role for the NLD, despite the party's landslide victory in a general election in 1990. Even routine contacts with Miss Suu Kyi were severed after 1995.

So the most tentative signs of a thaw have been greeted with excitement and some confusion by pro-democracy campaigners based in neighbouring Thailand, who talk about "another Berlin Wall" coming down, and with a cautious welcome by diplomats. These could be "a bridge to real dialogue, although it is going to take time to gain some confidence", says one. The fact that news of the talks has been made public with Myanmar's approval "gives them far more weight", says another.

Credit has so far been given to the new UN special representative for Myanmar, Razali Ismail, who is a Malaysian. He visited the country in October and again this week, when he was allowed to meet Miss Suu Kyi. Malaysia's prime minister, Mahathir Mohamad, who is eager to end the isolation of Myanmar by international institutions and other countries, has also been in Yangon. Because Malaysia has unusually close relations with Myanmar, he may have persuaded the regime that direct talks with Miss Suu Kyi would ease diplomatic pressure on the country and on other members of the Association of South-East Asian Nations. The group has been treated with some circumspection by the West since Myanmar joined in 1997 and some members, such as Thailand, have tried to distance themselves.

But the recent clampdown on the NLD has shown no sign yet of being eased: one parliamentarian was jailed for 21 years recently. And any talks will be hindered while senior NLD members are kept in army camps and denied the freedom to talk to one another. "These contacts are like a negotiation between a hostage and a captor," complained one democracy activist this week. Not much merit in that.

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China

The ghosts of misdeeds past

Jan 11th 2001 | BEIJING
From The Economist print edition

The leadership brushes off attempts to confront it with its past

TWICE already this year, China has been shaken by echoes from two of the sorrier episodes in its recent history. One concerns China's actions in Cambodia, where in the 1970s it propped up the brutal rule of Pol Pot's Khmers Rouges. The other is closer to home, in the form of newly published papers claiming to document the top-level deliberations of the Chinese leaders who ordered the deadly army assault on thousands of peaceful demonstrators around Tiananmen Square in June 1989.

Reuters

Who inspired Pol Pot?

On January 2nd, Cambodia's National Assembly authorised a tribunal to prosecute Khmer Rouge leaders for genocide. The proposal needs still to be approved by Cambodia's Senate, which was debating it this week, and by the king, and it will take months to complete the administrative arrangements. But it seems likely to proceed.

Even though no foreign nationals will be tried, China's role is bound to come under scrutiny. It is not easy to distinguish between China's support for Pol Pot and complicity in his policies, which saw 1.7m Cambodians perish between 1975 and 1979 in a nationwide purge closely modelled on China's own cultural revolution. More troubling still are allegations made by the Documentary Centre of Cambodia that Chinese advisers worked at the infamous Tuol Sleng prison, helped train Khmer Rouge arrest-squads, and sometimes took part in arrests.

When President Jiang Zemin visited Phnom Penh last November, he was hounded by demonstrators calling on China to acknowledge its role in the tragedy. The protests were enough to force Mr Jiang to curtail his movements around Phnom Penh, but not enough to elicit any sign of Chinese introspection, far less any kind of apology.

The Tiananmen massacre of 1989 elicits similar embarrassment from China—and a similar policy of sweeping awkwardness under the carpet. The papers released this month in America purport to be minutes of conversations among the senior members of the regime in the days leading up to the army's takeover of central Beijing. Allegedly smuggled out by an anonymous but reform-minded senior official, the papers contain fascinating scraps of dialogue, though they do not greatly alter foreign analysts' understanding of what happened. With the leaders divided over how to handle the crisis, a handful of retired elders stepped in to end the protests, and then installed Jiang Zemin as the new top dog.

The more interesting point is that the documents have come to light at all, especially at a moment when many of those at the top, including Mr Jiang, are preparing to step aside, and the jockeying among those who would replace them is in full swing. China says the papers are a fabrication, and has repeated its view that the actions taken in 1989 were both correct and necessary.

But Bao Tong, the only senior official to be jailed in 1989 for sympathising with the demonstrators, is sure the papers are genuine. He is certain too that China should allow an honest and public examination of what happened in 1989. "If we really want to avoid having this repeated, we need to look at how it developed. I know that very few officials would have access to these sorts of documents, but we know now that at least one of them wants to see them published. That's a good thing," says Mr Bao.

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Take me to the river

Jan 11th 2001 | DELHI
From The Economist print edition

HINDUISM is inseparable from the geography of India, a land scored with rivers that are goddesses and paths that pilgrims take. For 42 days starting on January 9th, the alignment of the stars makes Allahabad, where the Ganges, the Yamuna and a mythical third river converge, an especially holy place to be. Up to 70m Hindus are expected to come to this city in eastern Uttar Pradesh to wash away their sins at one of the four spots where drops of the elixir of immortality fell from a pitcher as gods fought with demons to possess it. An estimated 2.5m showed up on the first day. The last Kumbh Mela (pitcher fair), 12 years ago in Allahabad, which attracts the biggest crowds of the four, set a record for a human congregation. This year's assembly is thought likely to break it.

AP

Come on in, the water's holy

Non-Hindus who take the trouble to go—Madonna and Pierce Brosnan (James Bond) are expected—will be awed less by the spectacle than by the fervour that animates it. In a country where roadside shrines have not become mere architectural curiosities, faith does not seem endangered by the perils of travel, or by the fear of stampeding pilgrims, a common hazard at India's religious gatherings.

Yet some of the Kumbh Mela's most passionate participants could mar it. The Vishwa Hindu Parishad (World Hindu Council), a sister organisation of India's ruling party, intends to hold a conference of "saints" in Allahabad. At its end, on January 21st, the group may announce a date for building a temple in Ayodhya, another holy city, where a mosque stood until it was demolished by Hindu zealots in 1992. That set off bloody strife between Hindus and Muslims. The building of a temple might well do the same. It would be a pity if Hinduism's greatest festival were remembered mainly for that.

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Japan hangs up the hammer and sickle

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From The Economist print edition

FOR all the drift of world events elsewhere, the 43 members of parliament and 370,000 card-carrying faithful of the Japanese Communist Party (JCP) still patiently await the workers' revolution. Now there are signs that the long vigil may at last be called off.

This week brought the revelation that the JCP's chairman, Kazuo Shii, is planning a visit to the United States, the first of its kind for a JCP boss. Apparently, Mr Shii hopes to discover whether it is still true that, as the party's Manifesto on Freedom and Democracy declares, the Japanese people are enslaved by American imperialists working hand in glove with their unequal partners, Japanese monopoly capitalists. Sensitivities naturally preclude a meeting with the incoming Republican administration. But Mr Shii has let it be known that certain "progressive" elements of the Democratic Party are safe enough to meet.

If this goes on, the JCP could become an interesting new partner in the dating game of Japan's coalition politics. For a political party, its reputation among the public runs unusually high. In contrast to most of its rivals, the JCP's finances are clean. Most of its money comes from sales of *Akahata* ("Red Flag"), the party newspaper. Its vote is well organised, through 26,000 party branches. In fact, the only thing holding Japan's Communists back so far has been their communism, a problem the party has begun to attend to.

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India

The poor want answers

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From The Economist print edition

"THE TREASURE", a comic play in one act, opened for a single matinée in Rajsamand last month. The players were activists and peasants from nearby villages, costumed in their usual turbans and saris. The theatre was the main street of this town in a drought-stricken district of Rajasthan in northern India. The plot: the capture of India's wealth by a corrupt trio—a politician, a bureaucrat and a policeman. The point: the right to information is not merely a slogan for journalists but a matter of life and death for the poor.

The play is produced by a group called the Mazdoor Kisan Shakti Sangathan (MKSS), which translates as the Association for the Empowerment of Workers and Peasants. It practically invented India's growing right-to-information movement. Its agitation has already led to new laws in Rajasthan to open up government and inspired similar initiatives in other states. The central government is planning to rewrite the Raj-era Official Secrets Act, which still governs the public's access to government data. "The idea is so seminal, we are sometimes awed by its implications," says Aruna Roy, an ex-civil servant who is the best known of the two dozen people who constitute the MKSS's "collective" decision-making body. She compares the movement to India's struggle to free itself from British rule.

In this region, the comparison does not seem boastful. In drought years, four-fifths of the young men migrate in search of work. Many people who stay depend on government jobs to see them through the end of winter to the beginning of the next monsoon. Sometimes, though, the promised jobs do not materialise. Or the wages are lower than they are supposed to be. Some public works are built flimsily, or not at all. When people talk about famine, they think of corruption.

The MKSS stumbled on that connection in the mid-1990s, while campaigning for payment of minimum wages. Although it has made openness a national cause, its genius has been to rally villagers to challenge their own local governments on the issue. *Gram panchayats*—councils representing clusters of villages—ought to be the most accountable unit of government because they are closest to the people. Yet each is headed by a *sarpanch* who spends up to 100,000 rupees ($2,100), some of it on booze for prospective constituents, to be elected to a job that pays 400 rupees a month. So the balance has to come from diverting public money.

In and around Rajsamand district, the MKSS is the *sarpanch*'s nightmare. It has held a series of public hearings where villagers discover from official documents the discrepancies between what is due to them and what has actually been delivered. One, for five *gram panchayats* in January 1998, revealed misappropriations of at least 100,000 rupees in each. At some, officials have volunteered to return the money. After a 53-day sit-in in Jaipur, the state capital, in 1997 the MKSS won the right for citizens to obtain photocopies of *panchayat* records within four days.

Its battle in Janawad, south-west of Rajsamand, shows both the power of openness and of the resistance to it. In accordance with MKSS-inspired rules, the *panchayat* painted on the walls of its village hall an account of works done in the previous five years. It did not take villagers long to realise that much of the fresco was fiction. In 1998, for example, 80,000 rupees were supposedly spent on renovating Janawad's dispensary. The nurse who lives beside it says no work was done. "If this board hadn't come up, all would have been lost in papers," says another local.

But the effort to get copies of those papers, now backed by the state bureaucracy, has so far taken nine months, not four days. Janawad's administration recently won a court order to stay the release of documents, but the MKSS hopes the order will be rescinded this month. When *The Economist* attempted

to speak to Janawad's (now ex-) *sarpanch*, he excused himself, citing sudden news of an illness in his family.

Unlike most good-government campaigns, which rely on co-operation and consensus, the MKSS's campaign mobilises the humblest people, encourages them to think of their interests rather than of traditional loyalties to caste or kin and invites the antagonism of officials. Its methods make it possible for women, illiterates and lower-caste people to assert an authority over government that for most has been merely a distant abstraction.

MKSSers live their egalitarian beliefs. The collective's ten salaried members are an unlikely team of polished English-speakers, such as Mrs Roy, and local folk. Mrs Roy and several others live communally in a compound consisting of a few mud huts and one sturdier office. All receive Rajasthan's minimum wage of 60 rupees a day.

Success is raising awkward issues. The MKSS, which describes itself as a "non-party political formation", is coming under pressure to enter electoral politics. It has fielded three candidates for *sarpanch* so far (two won), and is wondering whether to enter elections on a larger scale and for higher office. Would that sharpen the MKSS's campaign, or try the collective's egalitarianism and test its ethics?

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Sri Lanka

Poker game

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From The Economist print edition

DURING the 17 years of Sri Lanka's civil war, ceasefires have been arranged from time to time in the hope that permanent peace would follow. The difference about the present one, called by the separatist Tamil Tigers in December and due to end on January 24th, is that it has not been matched by the government. It believes that the Tigers sought only a breathing-space. As in the past, after recovering they would resume their attacks with renewed ferocity. The government forces have continued to kill Tigers with abandon, and held their fire only on Christmas day.

While the government can claim some consistency for its policy of all-out war on the Tigers, formally adopted six months ago, its rejection of the Tigers' offer has upset the Norwegians, who for 18 months have been trying to find a way to end the conflict. The Norwegians are among the most peaceable people on earth these days, whatever they may have got up to during Viking times. They find it difficult to understand why the president of this little island, Chandrika Kumaratunga, and the Tigers' leader, Velupillai Prabhakaran, cannot settle their differences. Britain, the United States and India, the regional superpower, share the Norwegians' disappointment. A meeting in Paris in December of Sri Lanka's aid donors ended, unusually, without any pledges being made for the next financial year.

Sensing Sri Lanka's growing isolation, Mrs Kumaratunga broadcast on January 8th specifically to the people of the north-east, where most Tamils live, and which has been the main cockpit of the war. She said there was no point in having a ceasefire unless the Tigers were prepared to negotiate. Once they agreed to negotiations, the government would be ready for a ceasefire.

In this poker game it is difficult to see which side has the better hand. The Tigers' publicity machine, centred in London, has drawn international attention to the government's hardline position. Militarily the government seems to have done well during the lull, regaining control of an important road linking two large towns, Jaffna and Chavakachcheri. But its generals must be nervous that the Tigers will eventually renew their attacks in the Jaffna peninsula, which they came close to capturing in May last year.

If Norway does get the two sides together, what will they talk about? The Norwegians would like the Tigers to stop attacking southern areas of the island, dominated by the Sinhalese majority; in return, they want the government to lift its restrictions on supplies of food and medicine to rebel-controlled towns. Beyond that, the Norwegians appear vague. Raymond Johansen, Norway's deputy foreign minister, said last week that "Tamil aspirations must be met in a substantial manner." But he ruled out a separate state for the Tamils, which the Tigers have demanded.

Erik Solheim, who handles most of the Norwegian negotiations, has mentioned Switzerland as a model federation. A Swiss Sri Lanka? There's a thought.

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The battle-lines in Turkey

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From The Economist print edition

AP

Can the Turks who want their country to become a modern democracy stand up to the generals?

FOR Turkey, 2001 got off to a grey start. In the past few weeks, the country has had its worst financial crisis in recent years, a series of bloody prison rebellions that claimed 32 lives, and a wave of terrorist attacks in its business capital, Istanbul. Pictures of dead policemen and the mangled remains of a suicide bomber have reminded many Turks of the street violence between right-wing and left-wing extremists which led to their generals' most recent military coup, in 1980. Indeed, on January 9th Mesut Yilmaz, the leader of the centre-right Motherland party and a deputy prime minister in Turkey's three-party coalition, publicly accused "certain forces" of "seeking to push the country towards a military regime".

Mr Yilmaz's uncharacteristically brave remark sums up the confrontation that has been taking shape ever since 1999, when the European Union's leaders at last got round to saying that Turkey was a candidate for full EU membership. The battle pits a majority of Turks, who want their country to become a proper European democracy, against those senior soldiers and other rich and powerful people who will lose much of their clout if Turkey makes the changes needed to join the European club.

Only months ago, it looked as if the liberal side was winning. The man who became the country's president last May, Ahmet Necdet Sezer, a former head of the constitutional court, has repeatedly called for the rule of law to be upheld, and for Turkey's politics to meet European standards. The unpretentious new president, whose motorcade actually stops at red traffic lights, has warmed millions of Turkish hearts; for the first time since Ataturk, a president is beating the army in the opinion polls. And the government since 1999, an unlikely-looking alliance of a leftish prime minister, Bulent Ecevit, the conservative Mr Yilmaz and a hard-nosed right-winger, Devlet Bahceli of the Nationalist Action Party, has given Turkey its most stable administration in years.

Under this coalition, Turkey has embarked on an ambitious economic-reform programme, helped by the IMF, which has brought inflation down to its lowest annual figure in over a decade, from 70% a year ago to 39% now. Just as strikingly, the interior minister, Sadettin Tantan, has been waging an unprecedented war on corruption.

Entire gangs have been arrested, and some very big fish have been netted. Yahya Murat Demirel, a nephew of ex-President Suleyman Demirel, is now in an Ankara jail, accused of siphoning off billions of dollars from a bank he owned before it collapsed. Half a dozen senior people in the energy ministry, recently sacked on suspicion of taking bribes, may well join him.

Last year the interior minister also managed to crush Turkey's most vicious group of armed Islamists, Hizbullah. This was all the more heartening because some powerful people in the security forces have egged on Hizbullah, whose targets were the same as their own—nationalist Kurds and guerrillas of the Kurdistan Workers' Party, the PKK.

The Kurdish problem had already been eased by the PKK's decision to call off its 15-year war for Kurdish independence after the capture in 1999 of its leader, Abdullah Ocalan. The trial of Mr Ocalan on treason charges was described by most European observers as largely fair and free, not least because the government passed legislation removing military judges from the court before a verdict was reached. The death sentence passed on Mr Ocalan has been stayed pending a review of his case by the European Court of Human Rights, a process that could take years. Few believe he will be hanged.

In November the national intelligence chief, Senkal Atasagun, said it was in Turkey's interest to lift the ban on broadcasting in the Kurdish language. To general astonishment, he was supported by Mr Ecevit. Previously the prime minister could not bring himself to pronounce the word "Kurd", preferring to call the country's 12m or so Kurds "our south-eastern citizens".

So far, so good. But then things began to go wrong. The Turkish general staff chose the day on which Mr Ecevit flew to France for last month's EU summit meeting to liken people who advocate Kurdish cultural rights to those "who speak the same tongue as the PKK". Relations between Turkey and Greece, which had seemed to be on the mend, blew up again in a row during NATO exercises in the Aegean. The gap between Turkey and Europe seemed once more to be widening.

There followed the financial mess, set off by a government investigation into ten failed banks; an IMF pledge to provide more than $7 billion in emergency loans over the next year was needed to fend off a serious crisis. And on December 19th Turkish troops started to attack 20 prisons across the country in a bungled attempt to end a two-month hunger strike by left-wing prisoners who had been more or less running their dormitories and were protesting against a plan to transfer them to smaller, more controllable cells. Television pictures of scorched prisoners who had set themselves ablaze did Turkey's case no good at all in Europe.

Yet Mr Ecevit's government still has a chance to put things right when it releases its National Programme for EU membership at the end of this month. Described by a senior official as the country's most important project since Ataturk's revolutionary reforms of the 1920s and 1930s, the document will set out in detail what Turkey is prepared to do to meet the EU's criteria for the opening of membership talks. The problem is that Mr Bahceli's Nationalist Action Party—no doubt encouraged by some of the generals—is said to be resisting any acknowledgment of Kurdish cultural rights, and any diminution of the political influence of the army.

For the first time, though, Mr Ecevit is fighting back. The day before Mr Yilmaz's protest against those seeking to "push the country towards a military regime", the prime minister produced his first-ever criticism of military meddling in politics. An unnamed general had been quoted in a mass-circulation newspaper, *Hurriyet*, as saying that the armed forces, not the government, were the driving force behind the corruption probe in the energy ministry. "Such talk violates the supremacy of law," Mr Ecevit thundered. "We shall investigate the matter and find out who these people are."

Are Turkey's politicians at last nerving themselves to stand up to the generals? If they are, they will have to match their words with deeds. One desirable deed would be to amend the penal code in ways that would enable Turks freely to debate such thorny issues as Kurdish rights and political Islam without finding themselves behind bars, as many politicians, journalists and academics have done. They can also prevent the closure of Turkey's largest pro-Islam party, Virtue, and of its largest legal Kurdish party, Hadep, which both face bans on thinly supported charges of "anti-state" activity. Encouragingly, the president has refused to extend the term of Turkey's fiercely anti-Islamic chief prosecutor, Vural Savas, and parliament may soon pass a measure, opposed by the generals, that would make the banning of political parties much more difficult.

As one observer of the country's politics, Cetin Altan, has put it: "The Turks have missed the 20th century. Let us not miss the chance of catching up with the world in the 21st." Few sensible Turks would disagree.

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Germany

The government takes a knock

Jan 11th 2001 | BERLIN
From The Economist print edition

The resignation this week of two ministers and continuing attacks on another three have jolted Gerhard Schröder's government

HOW fast the wheel of political fortune can spin. Barely a fortnight ago, Chancellor Gerhard Schröder was smugly describing 2000 as a "good year for Germany" and heralding 2001 as likely to be even better. Hardly a week into the new year, he has lost two important ministers, amid public alarm over the government's mishandling of the crisis over mad-cow disease (BSE), and another three ministers, including Joschka Fischer, who runs foreign affairs, are under attack. The Social Democrat-led government suddenly looks edgy and Mr Schröder's political touch rather less deft.

AP

Changeable Fischer

Still, the chancellor moved impressively fast to limit the damage. Within a day of the resignations of Andrea Fischer, the Green in charge of health, and Karl-Heinz Funke, the Social Democrat responsible for agriculture, he had announced replacements and declared that agricultural policy would be refashioned to ensure that consumers' interests preceded those of farmers. Renate Künast, a leading Green, will head an agricultural ministry whose remit will be widened to include consumer protection and food. Ulla Schmidt, a former teacher of handicapped children and until now the Social Democrats' deputy leader in parliament, will become health minister.

During Mr Schröder's two years in office, the tally of ministers squeezed out or resigning in a huff has risen to six, starting with Oskar Lafontaine, who flounced off in the spring of 1999 after just four months as finance minister. The latest resignations have inevitably brought charges that the government has been sloppy, complacent and badly co-ordinated in its handling of the mad-cow crisis. Franz Müntefering, the Social Democrats' secretary-general, admitted that it had clung too long to the illusion that German herds were entirely free of the disease.

Until the day last November when the first BSE case was discovered in a German cow, Mr Funke, himself a farmer, had continued to insist that Germans had nothing to fear, despite repeated warnings from EU officials to the contrary. Ms Fischer, in resigning, conceded that "the consumers' trust in the government's ability to overcome the BSE problem has been shaken."

That, to put it mildly, is an understatement. The reaction in health-conscious Germany has—to say the least—been acute, even though only ten cases of BSE have so far been confirmed, compared with nearly 180,000 in Britain over the past decade or so. Germany's beef sales have already slumped by more than a half.

Three other ministers are under attack. The opposition Christian Democrats have accused Hans Eichel, the finance minister, of taking expensive military flights between Berlin and Frankfurt for private purposes. Rudolf Scharping, the defence minister, has been accused of being less than forthcoming about the cancer risks run by German troops exposed to the effects of depleted-uranium shells in Bosnia and Kosovo. And Joschka Fischer, the Green foreign minister (no relation to the departed health minister), has been denounced as a "disgrace" after revelations of his past as a far-left "street-fighter" in Frankfurt in the 1970s.

Of these allegations, the ones against Mr Fischer are likely to hurt most. Germany's most liked politician, he has never sought to hide his radical past. But the publication of photographs showing him in 1973 about to thump a cowering policeman as four other left-wing assailants crowd round has brought home

the street-fighters' most unsavoury side.

Further embarrassing details of the lives of radicals in the 1970s may emerge on January 16th, when Mr Fischer is to appear as a witness for the defence in the trial of Hans-Joachim Klein, another former Frankfurt street-fighter accused of committing murder during a terrorist attack against ministers from OPEC countries in Vienna in 1975.

Meanwhile, Bettina Röhl, the vengeful daughter of Ulrike Meinhof, a leader of the terrorist Baader-Meinhof gang that also created mayhem back in the 1970s, is threatening legal proceedings against Mr Fischer for attempted murder. Ms Röhl claims that Mr Fischer was involved in a fire-bomb attack on a police car in which a policeman was nearly killed in 1976.

Mr Fischer denies all knowledge of the attack and says he never used anything more than fists and stones against the police. But he now admits he played "an important, maybe central role" in the radical left-wing movement in Frankfurt in the 1970s. Mr Schröder, who acknowledges that he himself was once a young Marxist who sympathised with the street rebels of 1968, says he is right behind his embattled foreign minister. But quite a few law-abiding Germans have been wondering anew whether a man with so punchy a past is suited to represent them abroad.

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A switch for Germany's liberals?

Jan 11th 2001 | BERLIN
From The Economist print edition

WILL a change of face bring better luck to the struggling Free Democrats, Germany's champions of individual freedom and the market? At a party conference earlier this month, Guido Westerwelle, the liberals' pushy young general secretary, was acclaimed as leader-in-waiting after Wolfgang Gerhardt, the party's amiably dull chairman for the past five years, agreed to step down. The decision ended a power struggle that began after the 1998 general election, when the small but once influential party lost its long-standing role as kingmaker. Instead, its place as junior partner in Germany's ruling coalition has been usurped by the Greens.

AP

Westerwelle wants a partner

"We will drive the Greens from power in 2002," exclaims Mr Westerwelle, who is due to be formally enthroned as leader at a congress in May. Although his party has rarely won more than 10% of the vote, it has been in power, usually with the centre-right Christian Democrats, for all but nine of the 51 years since Germany's post-war republic was founded. But since being overtaken electorally by the Greens in 1994, its future has looked shaky. Some commentators reckoned it would simply fade away. The party-finance scandal that hit the Christian Democrats at the end of 1999 helped briefly to revive its fortunes. But since then pollsters reckon that its support has dropped back to 6-8%, about level with the mercurial Greens, and just a point or two ahead of the ex-communist Democratic Socialists.

Among those pushing hardest for a change at the top has been Jürgen Möllemann, a former rival of Mr Gerhardt's who leads the party in Germany's most populous state, North Rhine-Westphalia. The Free Democrats, and particularly their leader, had—he argued—been too close to the Christian Democrats for too long. If they were to stand a chance of returning to power, they should think about teaming up with Chancellor Gerhard Schröder's ruling Social Democrats, who seem well set to win next year's general election, albeit without an absolute majority.

Though wary of Mr Möllemann's ambitions, Mr Westerwelle shares much of his analysis. But why should Mr Schröder want to change allies? After a sticky start, the Greens have served him well, often backing his more business-friendly reforms in the face of opposition from the unions and his own party's left-wingers.

Ever the tactician, Mr Schröder is keeping his options open. But unless the Free Democrats, under their new leader, come close to hitting their new target of 18% of the vote in the next general election, or unless the Greens embarrass him severely, Mr Schröder is unlikely to change partners.

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Charlemagne

Carla Del Ponte, battling for Balkan justice

Jan 11th 2001
From The Economist print edition

WILL the international criminal court in The Hague ever get its hands on the main people thought to be behind a decade of butchery in the Balkans? As long as Slobodan Milosevic, publicly indicted as a war criminal in the summer of 1999, remained president of Yugoslavia, the answer was plainly no. But things are changing. With a new Yugoslav president in office and a new government about to take over in Serbia (the main component of Yugoslavia's shrunken federation), Mr Milosevic's days as a free man may be numbered. Carla Del Ponte, the chief prosecutor of the International Criminal Tribunal for the former Yugoslavia—to give this United Nations court its full name—reckons the chances of putting the worst murderers in her dock are rising.

Ms Del Ponte, a former attorney-general of Switzerland, has good qualifications to lead the chase. She won plaudits at home for her fearless pursuit of Mafia-connected criminals. Nor did she shrink from tackling Russian crooks who seemed to have the Kremlin behind them. A master of her brief, she is tough, determined, and her blood—it seems—is up. "After the [Serbian general] election, I will be more forceful," she promised. No doubt.

But the job she took up in September 1999 is exceptionally tricky. For a start, the Balkans are not her sole concern; she flies every few weeks to Arusha, in Tanzania, where she is also chief prosecutor in a parallel international court, under the UN's auspices too, which is meant to try those responsible for killing some 800,000 people in Rwanda in 1994. And in the Balkan forum much still depends on political factors that are largely beyond her range of influence. Itching she certainly is to prove her suspects' guilt in court. The problem is still how to get them there.

All the same, the outlook was brightening even before Mr Milosevic's downfall in October. The first rays of hope appeared a year ago, after the death of Croatia's nasty president, Franjo Tudjman. A reform-minded government under Tudjman's much more decent successor, Stipe Mesic, has proved keen to win credit (in every sense) from the West by sending alleged Croat war criminals to The Hague. When a dozen generals publicly protested, Mr Mesic sacked those of them who were still in service.

But it is becoming harder again for Ms Del Ponte to keep the Croats on course, particularly since the word is out that the latest batch of secret indictments fingers quite a few of them still in politics or in uniform. Croatia's media are turning against the court. A favourite complaint is that, while the Croats have been handing their men over to The Hague (some, it is said, merely for fighting rough in a patriotic war), the Serbs, under their new order, are being treated more leniently.

That is not at all what Serbs are saying. Mr Milosevic likens Ms Del Ponte and her tribunal to a "new Gestapo" bent on "carrying out genocide against the Serb people". Many Serbs see the court as a mere instrument of victors' justice. But opinions in Belgrade are varied—and changeable. Mr Milosevic's successor as Yugoslavia's president, Vojislav Kostunica, says he is against sending Serb suspects to The Hague, though keen to arraign Mr Milosevic and his friends in Belgrade for various other misdemeanours. Serbia's likely new prime minister, Zoran Djindjic, says that Ms Del Ponte's court may be allowed to oversee a war-crimes trial, also in Belgrade; but he hints at greater flexibility. Some more liberal figures likely to take posts in the new Serbian government say openly that suspects may indeed be sent abroad, while others, including a former senior policeman and a former general who both served under Mr

Milosevic before siding with Mr Djindjic, disagree fiercely, for obvious reasons. It should be noted, too, that Serbia's current president, Milan Milutinovic, has himself been indicted for war crimes. Moreover, the balance of power in Belgrade may not be resolved for several months. It is unclear whether Mr Kostunica or Mr Djindjic will come out on top: that depends partly on whether Montenegro remains within Yugoslavia— another open question.

But the momentum may help Ms Del Ponte's cause. Talk, in Belgrade, of an "Al Capone option", whereby Mr Milosevic and company may first be charged at home with embezzlement and electoral fraud, raises the prospect that, once behind bars, other graver charges might later be laid. If the more ardent reformers gain the upper hand, it is conceivable that he might yet be dispatched to The Hague. Ms Del Ponte, in any event, flatly rules out the trial-at-home idea.

She is soon to visit both Zagreb, Croatia's capital, and Belgrade. The main point she must drive home is that her court is impartial. She can point out that it has convicted Bosnian Muslims for war crimes against Serbs and Croats, and that over a third of the 39 people in The Hague whose trial is either under way or impending are not Serb. But it would help if she could nail ethnic-Albanians who have murdered Serbs in Kosovo. And she should stress that her tribunal's 14 judges, who include a Zambian and a Chinese, are not a bunch of NATO lackeys.

Diplomatic wiles (and her beloved cigarettes) apart, Ms Del Ponte also carries a carrot and a stick. The carrot is the aid that western countries say they will dole out if war-crimes suspects are handed over to her. The stick is the prospect of prolonging economic sanctions if they are not.

Ms Del Ponte is hopeful. The court is behaving more fiercely than many foresaw when it was set up in 1993. A Bosnian-Serb general, Radoslav Krstic, is now being tried for his part in massacring 7,000 Bosnian Muslims at Srebrenica in 1995. This week a former president of Bosnia's Serb Republic, Biljana Plavsic, gave herself up to the tribunal—the highest-ranking figure so far to come before Ms Del Ponte, who still has her sights on Radovan Karadzic, the Bosnian Serbs' war-time leader, and Ratko Mladic, their top general. By 2004, she hopes she will have brought some 200 alleged killers to justice. That may be optimistic. But the lady burns with a desire to punish evil-doers. She may yet get her way.

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Italy

A few bad apples

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HE WANTED to steal her day's takings, 300,000 lire, about $150. A young Moroccan stabbed to death a tobacconist in Vobarno, a small town near Brescia in northern Italy, known for its friendliness to immigrants. Another Moroccan drove as a prank, without headlights, the wrong way along an *autostrada* in Turin; that cost two lives, including his own. Three drunken Albanians in a stolen car hit a young couple on new year's eve near Bergamo, and killed both. Another Albanian, some time ago, ran into a young boy in Rome on a bicycle, and drove off, leaving him to die. He was arrested, spent a few weeks in jail and was again stopped recently while driving his sports car.

AP

Bossi would boot the illegals

These are specimens of a spate of crime committed by immigrants, mostly illegal ones, that has shocked Italy. And the nation's mood is changing. While the governing left talks about the problem, but produces no relevant legislation, some on the right are happy to exploit it. The once-separatist Northern League has begun to produce belligerent anti-immigrant noises, and is gaining by it. After plummeting in the polls, the league's leader, Umberto Bossi, last year joined forces again as a junior partner in a right-wing alliance led by Silvio Berlusconi. The issue of crime and immigration now gives Mr Bossi a chance to climb back. In the general election in April, this is clearly going to be a hot topic.

That will be the first time. Most Italians are tolerant. Maybe they remember the huge Italian emigrations, across the Atlantic or to Australia, which went on into the 1950s. And, compared with elsewhere in Europe, the influx is not vast. For sure, last year there were 1.25m non-European Union foreigners holding residence permits, 220,000 up on 1999. But that is only 2% of the population, though immigrants now account for 4% of all births.

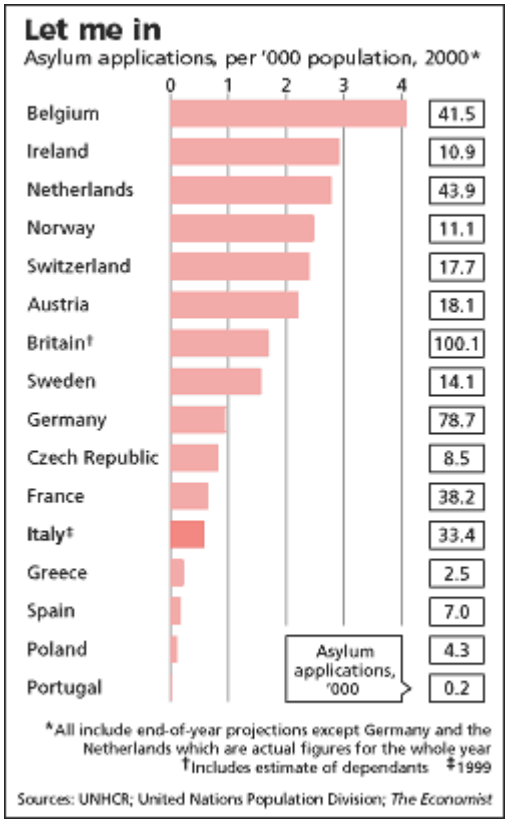
Of the total number of legal immigrants, roughly 40% are from Europe, 30% from Africa, 20% from Asia, and 10% from the Americas, with the largest communities being from Morocco, Albania, the Philippines, ex-Yugoslavia and Romania. A little over half live in the prosperous north. And unlike some rich European countries, Italy officially welcomes at least a limited number of immigrants: 63,000 last year. An extra 15,000 slots were given to companies needing workers; all were filled in a single morning.

As in other rich countries, there are jobs that Italians are not interested in any more, but that outsiders are. Many Filipinos and Sri Lankans are in domestic service. A lot of Sikhs are milkers on farms in the Po valley. Africans work in factories all over the north-east. Many Egyptians, numerous in Milan, are cooks, waiters and dishwashers, while Chinese have their own restaurants and shops. The surname Hu has become the sixth most common in Milan, overtaking the home-spun Brambilla.

Italy, which has one of the lowest fertility rates in the rich world, can and will accept more immigrants. The Roman Catholic church is very—some say too—welcoming, even if a few bishops have spoken against the "danger of Islamisation". Though the Northern League was quick to exploit that idea, and raised a huge fuss about the building of a mosque at Lodi, near Milan, the Muslim conversion of Italy is hardly imminent: only a third of the newcomers are Muslim, whereas half are Christian.

The real troublemakers tend to be illegal immigrants, and not all of them. Asians sneak in by land, mostly just looking for a job. Kurds are dumped on beaches down south, in Calabria, and claim political asylum—often, in fact, heading for relations in Germany. Moroccans and Albanians seem to commit the most crimes. The latter often come in by speedboats, which can dump them overboard if the coastguard gets anywhere near. Young Albanians often form gangs, dealing in drugs or prostitution.

The latest fad, which has caused alarm round Bergamo and Brescia, is armed robbery at isolated villas. The miscreants, if caught at all, give the police false names (or no name at all) and after a few days behind bars set out again to roam the country, with an expulsion order in their pocket. They reckon they can do more or less as they please, because the law is inadequate, and there are political forces on the left that lump all immigrants together as people down on their luck. Some reckon there are only 180,000 illegals. And of course not all make trouble. But the wrongdoers could help dish the left at the coming election.



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Little Polish love for the Union

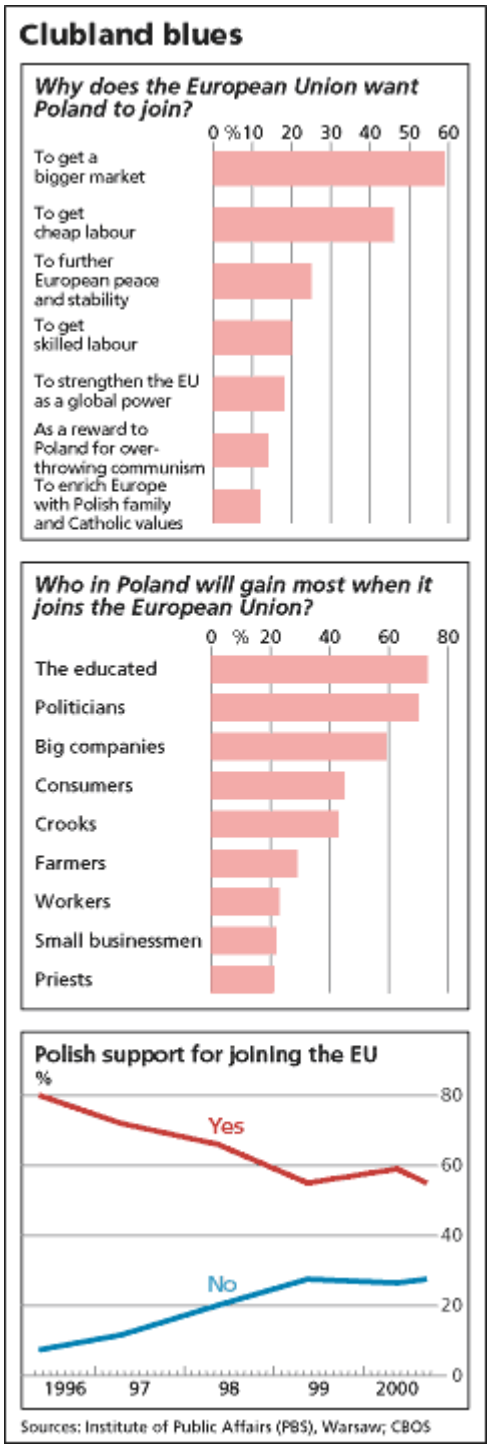
Jan 11th 2001 | WARSAW
From The Economist print edition

THE difference in numbers between the Poles who want their country to join the European Union and those who do not is narrowing, according to a recent opinion poll. But it is still wide, considering that only 4% believe the benefits of joining will be immediate and two-thirds think Poland will be a "second-class member for the foreseeable future". Once the negotiations are over, the Poles will probably give their approval in a referendum—perhaps as soon as next year. None of the main parties is hostile.

The Poles are practical and unromantic about the venture. Most reckon that the western members of the Union have their own commercial motives for wanting Poland to join, but they think their country should join for strategic reasons: four-fifths believe that Russia wants to recover its status as a superpower.

The Poles do not, on the whole, fret about losing their cherished sovereignty, despite going without it for most of the past two centuries. Indeed, opinion polls suggest that three-quarters of them think membership of the EU is unlikely to undermine it. They would rather the EU kept out of its foreign policy, education and laws on moral matters such as homosexuality, pornography and abortion. But most are happy to let the EU enact legislation on crime, the environment and defence. They are evenly divided over whether to join the single currency, though the terms of entry will require them to do so once they meet the economic criteria laid down for earlier entrants.

The most pessimistic are the farmers, the only group hostile to membership. "The EU will be a disaster for them," says a government minister, a view widely held in Poland. And most Poles bemoan the quality of food from the West that is likely to replace the wholesome stuff they currently produce at home.



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Kosovo

Uranium's fans

Jan 11th 2001 | PRISTINA
From The Economist print edition

BERNARD KOUCHNER, the French doctor who is about to step down as the UN's administrator of Kosovo, ran into some flak this week at a meeting of the province's ethnic-Albanian leaders, where the row over the risks posed by depleted-uranium shells was high on the agenda. But the complaint he faced was not that of neglecting risks to Kosovo's population in the 100 or more places where uranium-tipped munitions were detonated during the war between NATO and the Serbs.

Instead, the doctor was castigated for being too quick to bring depleted uranium and its dangers to the attention of the world. There was now a chance, the local politicians argued, that some units of the province's multinational peacekeeping force would withdraw in panic. As arguments over the risk from the substance have raged in Washington, London, Rome and Brussels, the reaction in Kosovo has been a mix of scepticism, defensiveness and confusion.

While Mr Kouchner is under attack for being too alarmist, NATO may yet find itself criticised for worrying more about its own soldiers than local people. Circulars issued to NATO peacekeepers have warned that lingering "heavy-metal toxicity" in armour struck by depleted-uranium munitions could pose health risks, and such vehicles should not be approached except when essential to NATO's mission, in which case heavy protection was needed. Humanitarian workers in Kosovo have been stressing that the danger to local civilians from unexploded munitions and land-mines is probably the most deadly legacy of the 1999 conflict—though soil contamination may be harder to detect and neutralise.

This week, embarrassed NATO spokesmen in Kosovo were insisting that their 44,000-strong force did not have enough troops to fence off from the public all the places where uranium-tipped shells had been fired. About a third are already off-limits because they are in minefields.

Environmentalists stress that there are plenty of other health hazards in both Kosovo and Serbia proper as a result of the war, which neither local politicians nor international agencies seem in a hurry to deal with. In industrial areas of Serbia near the Danube, for example, the World Wide Fund for Nature has found dangerous levels of mercury, dioxins and other poisons in the ground; for that, NATO bombs were partly but not wholly responsible. It remains to be seen whether the incoming government in Belgrade will be keener to set about a big clean-up than its predecessor, which loved the propaganda effect of NATO-induced "ecocide" but seemed reluctant to do anything about it.

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Switzerland

Is it still happier alone?

Jan 11th 2001 | GENEVA
From The Economist print edition

The Swiss are still wary of letting their country join international bodies

A FEW years ago, a Swiss diplomat complained that his was "the only country larger than a Pacific atoll" not to be a member of the United Nations. He would now have to remove the qualification. The last eligible atoll, Tuvalu, joined the UN in 2000. The only other notable state still standing alone in Europe is the Vatican, albeit in the belief that it has a stronger ally than the earthbound family of nations.

Over the past 14 years, Swiss voters have firmly rejected by referendum their government's attempts to coax them into the UN—or even into making formal arrangements with it. The Swiss, or most of them, have long regarded their brand of neutrality as superior to the Austrian, Finnish, Irish or Swedish versions. They are touchy about any outside influence on their lives, especially if this erodes their right to vote several times a year in referendums on virtually any issue they choose. But it used to be argued that such attitudes were mainly the property of older people, or rural Swiss, or plain right-wing traditionalists. This assumption has just taken a knock.

The first results of a recent study indicate that Swiss 20-year-olds may be even more conservative than their parents or their grandparents when it comes to the country's relations with the institutions of the outside world. Though they want to take part in that world, they are even warier of joining the UN—and the European Union—than their elders. The survey, which took in 20,000 conscripts and their families (most young Swiss do several years of part-time military service), found that 54% of the youngsters want to continue with the *Sonderfall*, Switzerland as a "special case" in the world.

During the past decade, the Swiss have joined organisations that can bolster their economic influence in the world, such as the IMF, the World Bank and the World Trade Organisation. In a recent referendum, they approved a set of economic agreements with their EU neighbours. They have also joined some lesser international bodies, such as the Council of Europe and the Organisation for Security and Co-operation in Europe.

Outsiders, especially those Europeans who want a more integrated EU, see all this as evidence that one of the world's richest countries wants the economic advantages of globalisation without the trouble of a deeper commitment to international teamwork. They are irritated by the relative ease with which European tax-evaders can still take advantage of Swiss banking secrecy. And the Swiss themselves have worried that the revelations of Jews turned back from their borders during the second world war, and the Holocaust money hoarded by their banks, have smeared their once-shining image.

To repolish it, the government has revived an official agency, "Presence Switzerland", which will this year set to work in the United States and Britain. Its head, Johannes Matyassy, admits that the picture most foreigners have of his country is less than perfect, especially on the subject of money. The aspect of Swiss life that Americans claim to be least impressed by, in an opinion poll commissioned by the agency, is the ethical standard of Swiss companies (though they still score above the international average).

In fact, the agency may find its job not all that tough. Its opinion poll also discovered that only 3% of Americans know what the Swiss were doing while the Holocaust was going on. Nearly three-quarters have a generally favourable view of Switzerland, which puts the Swiss ahead of the Dutch. Mention Switzerland, and cheese, chocolate, mountains and watches are still the things that pop up first in most people's minds. The Swiss voter's grip on his government, through the direct-democracy system, is still a rather misty concept, even among relatively well-informed Americans.

Not content with setting Mr Matyassy to work, the Swiss government is renewing its efforts to get its own people more deeply engaged in the outside world. It is pressing the case for joining the UN. A

referendum on whether armed Swiss soldiers should be able to join UN peacekeeping missions is due in June; next year, the Swiss will be asked whether their country should actually join the world body. This year, in March, yet another referendum, this one proposed by a group of voters, will be held (prematurely, says the government) on whether negotiations to join the EU should start forthwith. The government, more cautiously, says they should begin within the next six years. In any event, it still has to overcome the reluctance of its own people, young as well as old, to get tangled up with things out there.

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More Minder than Hollywood

Jan 11th 2001 | GLASGOW AND LONDON
From The Economist print edition

The drugs business is controlled not by Jamaicans, Chinese or other immigrant gangs, but by white, middle-aged career criminals who run their operations in ways that any businessman would recognise

FOR film, fiction and sensational journalism, the idea of an invasion of exotic drugs gangs is irresistible. Occasional drive-by shootings involving Jamaican Yardies with noms de guerre such as Thin Hand Barry and Juggernaught help bolster the myth that foreigners—not just Yardies, but also Chinese Triad gangsters and the Russian mafia—are spreading a culture of drugs and violence in Britain. But the truth has less in common with bullet-riddled Hollywood films than it has with “Minder”, the classic television portrayal of the seedy world of middle-aged London criminals.

According to the policemen charged with eliminating the trade, around 80% of the illegal drugs in this country are sold by operations run by indigenous career criminals, many of them in their fifties and sixties. They have business relationships in mainland Europe, particularly the Netherlands, where many of their supplies come from, with Triad groups like the 14K and Wo Shing Wo, with Colombian cartels, Turkish heroin merchants and Kosovan networks. But they themselves are as white and middle-aged as were Ronnie and Reggie Kray.

Customs officers refer to these people as “traditional faces”. They are the men who swamped Britain with fresh supplies of high-grade ecstasy in the final months of 1999. They ordered the £1.2 billion-worth ($1.8 billion) of heroin and cocaine seized by Customs and Excise in 1999-2000, and are currently working to establish cocaine as the club drug of choice in 2001.

For a brief moment in the late 1980s and early 1990s ecstasy broke this mould. With the new product came new suppliers. Gangs of former football hooligans and Dutch criminal entrepreneurs set themselves up importing and distributing this club drug.

But since then the drugs business, like so many others, has consolidated. The old gangs proved more efficient than the newcomers. They import ecstasy as part of mixed consignments which Customs and Excise calls “cocktail loads”. A recent seizure at Dover, for instance, included cannabis, ecstasy, cocaine, heroin and amphetamine sulphate.

The men who run the drugs trade tend to operate diversified criminal syndicates for whom drugs are only one part of their business. According to the National Criminal Intelligence Service, these gangs are often active in armed robbery, fraud and the vast trade in illegal cigarettes. Diversification allows them to use their resources efficiently: the same networks of people and lorries can be employed in the import of either tobacco or class A drugs.

There are exceptions. Sometimes a redundant steelworker who used his pay-off to buy a yacht on the Solent or the Clyde Estuary has a go at importing cannabis from Morocco. Freelance heroin and cocaine dealers swallow relatively small quantities of drugs in condoms or rubber gloves.

But freelancers find it hard to break into the business, because the professionals in Easterhouse in Glasgow and Peckham in London like to deal with people they know. Drug dealing, like banking, is a relationship business—only more so, because the risks of dealing with strangers are that much greater.

For the police, the freelancers are relatively easy meat. The trouble with the serious operators is that they do not stand out. They are cautious businessmen who shun the riskier end of the trade and as a result are rarely prosecuted.

Detective Sergeant Kenneth Simpson of the Strathclyde police’s drugs squad knows the type of man he is looking for. His house is in Bearsden, Milngavie or Newton Mearns, one of the fashionable suburbs to

which prosperous Glaswegians aspire. It is double-glazed and done out with chandeliers and luxury bathrooms. The bins contain receipts for cash transactions at Versace, and Dolce and Gabbana. The children are at private schools in the West End and the wife has a four-wheel drive.

In Glasgow, says Mr Simpson, a premier-league dealer is relatively parochial. “He aspires to everything money can buy but he does not lead a huge gang. He might portray himself as a car dealer or the boss of a taxi firm.” The drugs entrepreneurs tend to have neither fat bank accounts nor conventional share portfolios, though there may be stakes in pubs, clubs and other businesses well suited to laundering cash.

Eddie Gray, a Liverpool man who is now a category A prisoner at Full Sutton prison in York, is a fine example of the type, and one of the few to have been jailed recently. Mr Gray was convicted last year of conspiracy to supply heroin and ecstasy. He told the police that his Ferrari and luxury home with heated indoor swimming pool were the fruits of his modest taxi business. Investigating officers hope to seize the car, house and a fine collection of designer jewels at a hearing this spring.

Drugs entrepreneurs avoid trouble by running relatively small, streamlined operations. The workforce is a few reliable mules. Every month or so a pair will be despatched to meet established contacts in Manchester or Liverpool. There they split. One will collect ten or more kilos of refined Turkish or Afghan heroin—for which the boss will pay £15,000-17,000 a kilo—and perhaps a similar quantity of cocaine.

Violence, like distribution, is outsourced. If a street-dealer who has failed to pay for his supply needs to be disciplined, or an upstart rival frightened, the job will be done by what the Glasgow gangs call a “fire-in” or “rocket”. Elsewhere, only the slang is different. A desperate addict or debtor will be supplied with drugs or cash in return for a one-off act of intimidation or thuggery. He is a supply hooligan, acting out of desperation not loyalty. He is not one of the inner circle, and does not know where his orders came from.

Glasgow has six or eight of these big buyers and about two dozen first-division dealers. They grew up in the slums of the East End or the peripheral estates erected on the city’s western fringes and still fit in among the people they left behind. They each control a relatively small area of the city and are cautiously aware that the worst thing a career criminal can do is to get greedy.

In London, Bristol, Liverpool and Manchester, the trade operates in a similar way. The criminal “parishes” may be slightly larger. There are more direct connections between London gangs and their foreign suppliers. But Britain’s big buyers know each other, trade with each other and try to avoid stepping on each others’ toes.

Like many of those in the consumer-goods business, the men who run the drugs trade are keen to encourage their customers to buy higher-value products. Cocaine, until recently the narcotic of the fairly rich, is spreading through the clubs. Like heroin—and unlike lower-value drugs such as ec-stasy and marijuana—cocaine offers huge returns from small consignments. If Britain’s drugs entrepreneurs prove as adept at creating demand as they are at controlling supply, the cocaine boom will pay for several new taxi firms and car dealerships in Essex and Lanarkshire this year.

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Criminal justice

Straw condemns the juries

Jan 11th 2001
From The Economist print edition

Proposals to diminish the role of juries are part of the British government's plans to modernise the criminal-justice system

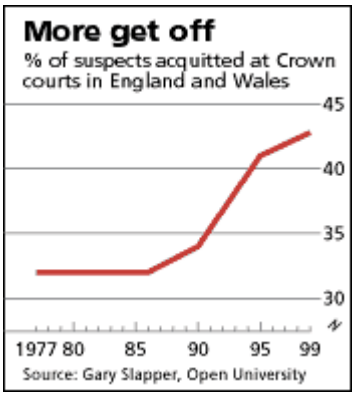
CRIME will take a prominent place in the forthcoming election campaign. Ministers are proud of the government's record on law and order, which includes more than a dozen criminal-justice acts in the past three years. This week the home secretary, Jack Straw, unveiled the first of a series of measures to tackle rising street crime and robbery. The next stage in his campaign to bolster his reputation as the cabinet's "hard man" is likely to be to renew the attack he launched last year on the right to trial by jury.

Most criminal cases are heard by magistrates' courts. Serious offences such as murder are tried by juries in crown courts, which have powers to hand down heavier sentences. But there is a group of intermediate offences, such as theft, for which defendants have the right to choose a jury trial. Mr Straw is seeking to curtail this right.

The right to a jury trial is under attack for three main reasons. Most revolve around administrative cost. First, juries are slow. The evidence has to be gone through laboriously at a speed that lay people can understand. They often have to be sent out of the court for hours so that legal arguments over admissibility of evidence can be heard.

Second, juries do occasionally behave eccentrically (see article). Third, juries do not convict defendants as reliably as they used to (see chart). Various reasons for this have been suggested, including incompetence on the part of the Crown Prosecution Service and scepticism about police evidence. But Mr Straw offers only one solution, which is to restrict the right to a jury trial.

His Mode of Trial bill, which would limit the rights of 400,000 defendants to demand a jury trial, was heavily defeated in the Lords last year. In order to get it through, the government would have to use the Parliament Act, its ultimate sanction, which would override any Lords veto.



Critics point out that fewer than one in 20 of the defendants who may choose a jury trial do so, and of these most plead guilty before the trial begins. A huge nutcracker is thus being deployed to crack a relatively small administrative problem.

The bill is unlikely to cut the costs of criminal justice by much. The government claims that £120m ($180m) would be saved. But its opponents say that these figures are based on a ten-year-old study—and that most of the supposed savings come from the dubious assumption that magistrates' courts would impose shorter sentences.

The bill's critics argue that jury trials are more thorough than trials in magistrates' courts, so fewer jury trials means less justice. There is a particularly sensitive racial issue, too. Research for the Commission for Racial Equality appears to show that black defendants would do particularly badly if their right to jury trials were restricted. Compared to white defendants, black defendants are more likely to be acquitted, or have charges against them dropped, in crown-court trials.

The opposition may force the home secretary to retreat. Even some of Mr Straw's cabinet colleagues appear to believe that the Mode of Trial bill is a mistake. The attorney-general, Lord Williams, has publicly expressed his doubts about whether it makes sense to force through controversial piecemeal legislation at a time when the criminal-justice system is under review.

Next month Lord Justice Auld is due to publish the results of his year-long inquiry into the workings of the criminal courts. He is expected to make far-reaching recommendations for reform. The key change suggested is the creation of a new court presided over by a district judge with two lay magistrates. Set between the magistrate and crown-court systems, this would hear a range of middle-ranking offences carrying a jail sentence of up to two years. The new court would greatly reduce the number of jury trials in the crown courts. One academic estimate is that the reduction could be as many as 40,000 jury trials a year, three times greater than the estimated impact of the Mode of Trial Bill.

The Auld review will also contain a series of recommendations aimed at strengthening the jury system. Research conducted for the review reveals that in London, six times as many potential jurors have to be summoned as are actually needed by the courts. Two-thirds of those summoned for jury service do not turn up, some making their excuses, some not bothering. Since the courts do not have the resources to pursue them, those who ignore the jury summons suffer no penalty. Penny Darbyshire of Kingston University, who conducted the research, says that the system is badly in need of reform. The Auld review is expected to recommend that the power to summon juries should be reinforced by penalties.

Lord Justice Auld will probably also try to improve the way juries work. In an earlier progress report, he indicated that the best way to help juries to produce reasoned decisions would be for them to answer structured lists of questions drawn up by the court before the start of the trial.

It seems likely that he will recommend that juries should give reasons for their verdicts in order to comply with the new Human Rights Act. When juries go off the rails, as they do occasionally, it is normally impossible to find out what happened because the 1981 Contempt of Court Act bans research into how they reached their decision. The Runciman Commission in 1993 recommended that this section should be repealed so that proper debate could take place rather than “surmise and anecdote”. The government, like its predecessor, appears unconvinced by this argument. But if it is determined to meddle with the jury system, it should do so on the basis of fact rather than fiction.

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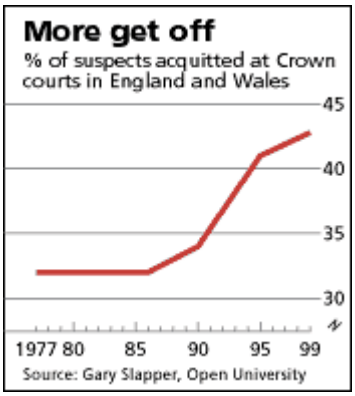

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Over, before it's begun

Jan 11th 2001
From The Economist print edition

BAGEHOT deplores his own ungenerous nature. Yet he felt strangely uplifted this week when the first tomato of Britain's general-election season landed on Tony Blair's well-tailored suit. This column has nothing personal against the prime minister, but the tomato was a reminder that even the dullest of elections has the pleasing effect of forcing the political gods to descend from Olympus and take their chances among the mortals on the high street. Moreover, the flinging of it suggested that the campaign might unleash more passion than people have a right to expect from an election whose outcome (Mr Blair's re-election and a first-ever full second term for a Labour government) is already being taken as much for granted as its unannounced date (May 3rd). Unfortunately, it transpired that this particular tomato was flung in protest at Britain's support for UN sanctions against Iraq, one of the many policies on which government and opposition nowadays see eye to eye. There is still every chance that the election will be as dull as expected.

It is not in everybody's interest to admit this. Mr Blair does not want to admit it lest complacency about the result persuades Labour voters to stay home on polling day. Newspapers do not want to admit it because dull elections sell fewer papers. Readers of British papers can accordingly expect much harking back in the coming months to the general election of 1970, when Labour's Harold Wilson looked like a shoo-in, but, to pretty universal surprise, victory went to the Tories. *The Economist* remembers this especially ruefully. We proclaimed "Harold Wilson's Britain" on our cover in the very week that Britain made Edward Heath its prime minister. Never prophesy, especially about the future, as the saying goes. All the same, 1970 is not much of a cautionary tale. Mr Wilson's government was climbing back from behind in the opinion polls, and his chancellor, Roy Jenkins, failed for all the worthiest reasons to deliver a sufficiently generous pre-election budget. Mr Blair, in contrast, is way ahead in the polls; and his chancellor has already indicated that the government's extra billions for public services will still leave room for "targeted" tax cuts in March.

The government accuses William Hague of seeking deliberately to stir up apathy, in order to encourage the low turnout Mr Blair fears. In fact a dull election is not in the Conservative leader's interest either. Having abandoned hope of actual victory, Mr Hague will need to show the party faithful that he has at least fought a good fight if he is see off potential challengers and keep his job for the election after next. If he does not go down fighting, he will probably go down for good. He has got off to a reasonable start. The poster campaign the Tories unveiled this week asks the right question: what improvement has the government got to show for all of its spending and speechifying on public services? But even a brilliant campaign would probably now come too late.

Politicians and journalists exaggerate not only the excitement of elections. They also exaggerate the significance of the formal "campaigns" fought out immediately before them. In fact most elections are won long before the campaigns begin. Indeed, with his colleague Roger Mortimore, Robert Worcester, chairman of the MORI polling firm, has argued ("Explaining Labour's Landslide", Politico's Publishing, 1999) that Labour "lost" the campaign of 1997. That is to say, the party shed potential votes throughout the campaign, mainly to the Liberal Democrats. But losing this battle did not matter, because Labour had already won the war that began soon after John Major's unexpected victory in 1992. Once Britain's ejection from Europe's exchange-rate mechanism on "Black Wednesday" had destroyed the Tories' reputation for economic competence, Mr Major was unable to benefit from the subsequent economic recovery. Divided on Europe and wallowing in accusations of sleaze, the Tories had been in power too long. Voters wanted them out, and Mr Blair's reinvention of Labour as a party of the centre made a change look safe.

By the same token, it is foolish to complain this time round about the campaign being dull and the result a foregone conclusion. It is only convention that insists on looking upon periods of campaigning and governing as separate things. Mr Blair and his government launched a disciplined campaign for re-election almost immediately after the triumph of 1997. This “campaign” has had excitements aplenty, such as the ill-starred Dome and last year’s fuel-tax rebellion, but is now almost over. Winning a second term has always been this prime minister’s first priority. That is why he seems intent on going to the country so much sooner than he needs to. Some voters will resent his seeking a second term before he has delivered the transformation promised for the first one. In every other way, his timing is good.

This week, scarcely a day passed without Mr Blair reiterating that his was now the party of economic competence, having ended “Tory boom and bust” and thereby created the circumstances in which it is safe to invest massively in public health, education and transport, with results that will shortly become visible. The polls suggest that he is believed. By banking this trust in a May election, Mr Blair can be reasonably sure that there is too little time for either half of his claim to be undermined by events. Mr Hague has meanwhile failed to set out a fresh vision of Conservatism and energise his party for the fight back. No leader would have found this easy. Danny Finkelstein, a senior party strategist who will fight the coming election as parliamentary candidate for Harrow West, admitted after the last defeat that, rightly or wrongly, voters had come to see the Tories as “arrogant, smug, sleazy, weak, incompetent and divided”. Mr Hague is half-way towards his goal. The Tories are nowadays seen merely as weak, incompetent and divided. The coming election would be truly thrilling if four months were time enough for Mr Hague to finish his job. It is surely too little.

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About sponsorship

Retailers

Shopping flopping

Jan 11th 2001
From The Economist print edition

Despite signs of an upturn in their fortunes, Britain's retailers will continue to struggle as consumers become more demanding and competition intensifies

PA

MIDWAY through the January sales, Britain's retailers have got a spring in their step. Reports of shopping over Christmas have been encouraging. The City is taking an interest in retailers again now that its love affair with technology and telecoms shares is over. But the retail revival will continue only for those companies that can deal with unprecedentedly fierce competition.

According to the latest survey by the British Retail Consortium, retail-sales growth in December was higher than a year earlier. This followed a strong performance in the three months to November, with government figures showing a rise in the volume of retail sales of 4.5% on a year before.

Last year brought other encouraging signs. The threat from pure e-tailers subsided as companies like the original Boo.com, an online fashion retailer, went bust. Although online shopping more than doubled in size to an estimated £1.4 billion, this still represented less than 1% of all retail sales, according to Verdict Research. And it became apparent, says the retail consultancy, that traditional shops with an online presence—"clicks and mortar" retailers—will out-perform pure e-tailers.

The big supermarket chains certainly regained favour in 2000. The Competition Commission found they were not charging excessive prices or making excessive profits. That put an end to earlier claims, endorsed in a ministerial campaign, of "rip-off Britain". Safeway, Britain's fourth-largest supermarket chain, re-entered the FTSE-100 index of stocks and the share price of Sainsbury's, the second-largest, recovered sharply.

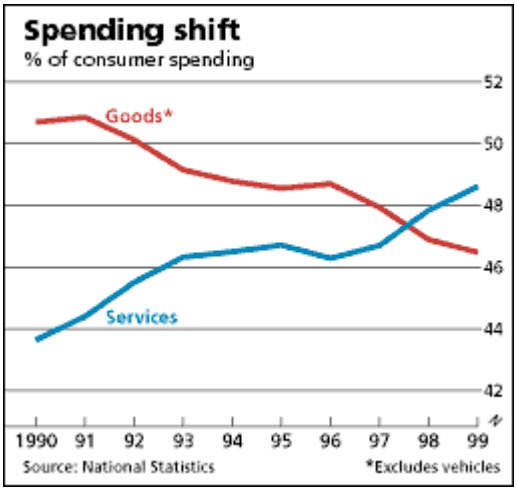
But the City remains nervous about retailers. Matalan, a fast-growing clothing discount chain, was a stockmarket favourite last year. This week its shares were marked down sharply after its Christmas trading figures disappointed investors.

Retailing—which employs nearly one in ten people in Britain—must continue to expect a testing time. Although consumers have been out in force in the past few years, the growth in their spending has not scaled the heights of the late 1980s, when turnover in the housing market, which fuels many purchases, reached an all-time peak. And growth in consumer spending is now expected to slow in response to a flagging housing market and higher saving by households, which put aside only 3% of their disposable income in the third quarter of 2000, the lowest since 1988.

Retailers are also battling against the shift in consumer demand away from goods and towards services (see chart). As consumers get richer and older, they prefer to spend money on a variety of services, ranging from private education for their children to holidays abroad. An ever-smaller proportion of household budgets goes on essential goods like food and shoes.

Households have been able to make these changes to their buying habits because goods, especially electronic products, are becoming cheaper. When this is taken into account, the volume of spending on goods and services remained broadly constant as a proportion of the total in the 1990s. However, this offers scant comfort to retailers that find their margins squeezed as mark-ups

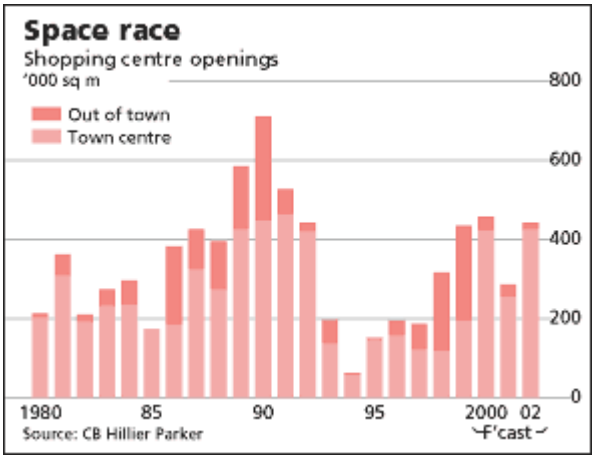
fall in line with the price of goods. This is one reason why many retailers have been hit hard by the strong pound: it led to falling prices for imported goods, cutting mark-ups while rent and wage costs continued to rise.



The worst of this sterling-led squeeze on margins is now past, but retailers will still find it hard to raise prices, says Ciaran Barr, economist at Deutsche Bank. “The aggressive price cuts of the past few years have let the genie out of the bottle.” Not only are consumers now accustomed to falling prices, they have also become more price-sensitive because low inflation and the Internet make it easier to keep tabs on prices.

It’s a jungle out there

As well as facing more demanding consumers, retailers are competing more fiercely. The industry’s golden years of the mid-to-late 1980s started a space race (see chart). As new shopping centres—where the bulk of new retail development is now concentrated—opened in the early 1990s, they started to draw business away from the weaker retail areas. Just 70 cities and major out-of-town centres now attract almost half the British population for shopping; 30 years ago, the corresponding figure was 200, says CB Hillier Parker, a property consultancy.



Now another big expansion is under way, which will further weaken shops in high streets in smaller towns and secondary shopping areas in big cities. Although the total amount of new space coming on stream is less than it was a decade ago, the scale of the expansion in town centres is almost as great.

Foreign firms are spearheading the growth. In the 1980s Britain ranked fourth as a destination for expansionist European retailers, according to a survey by Jones Lang LaSalle, a property consultancy. In the 1990s it has been the top target country. A notable new entrant from outside Europe was Wal-Mart, the giant American supermarket chain, which acquired Asda in 1999. Asda announced earlier this month that it is planning to increase its investment by a tenth this year to £450m, which will include the opening of nine new stores.

These twin forces—more demanding consumers and more competition—add up to a “fundamental shift in the economics of retailing,” according to Richard Hyman, chairman of Verdict Research: “the era of big margins is over.” The retailers that have been struggling most of all are middle-of-the-range groups such as C&A, which is closing its British stores, more than 100 of them, after losing £250m in five years. According to Mr Hyman, many shoppers now shun “the middle market, where you sell the same product to as many people as you can in the same environment.”

In this new climate, there is much greater variability of performance, according to Ross Davies, a specialist in retailing at Oxford University’s Templeton College. The continuing success of Tesco, Britain’s largest supermarket chain, shows that a retailer with the right formula and effective management can still thrive in these harsher times. But retailers that fail to adapt swiftly, such as Marks & Spencer, are brutally punished. And over the next few years, more of the high street’s big names are likely to suffer

the same fate.

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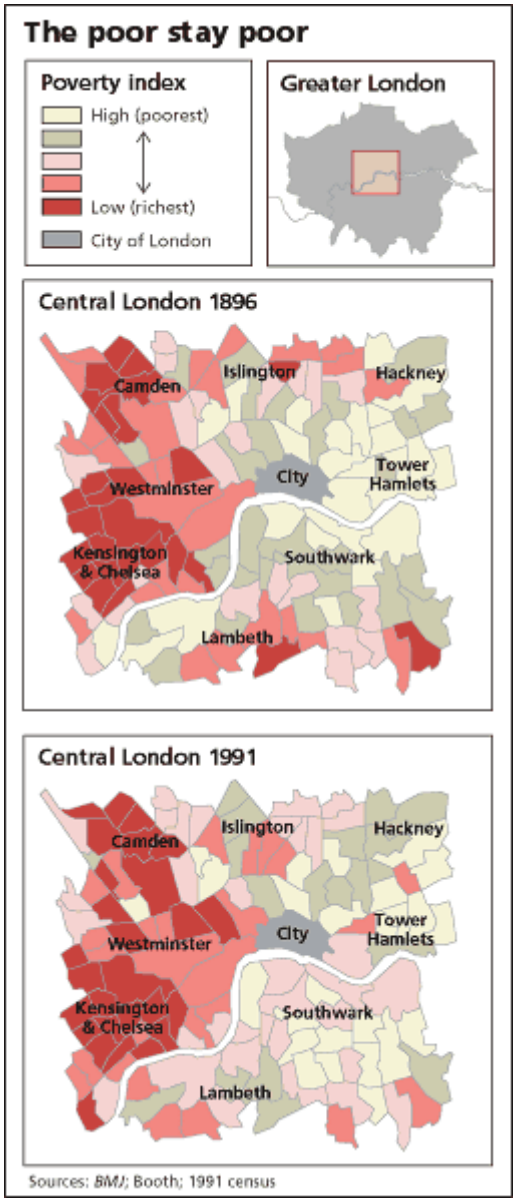
Poverty

Down-wind and out

Jan 11th 2001
From The Economist print edition

Poverty has clung to some parts of London for at least a hundred years. Why?

THE socio-economic classifications used by Charles Booth, a researcher in 19th-century London, were much more colourful than the bland gradations preferred by modern sociologists: the bottom class in Booth's hierarchy is labelled "vicious, semi-criminal". But according to research recently published in the *British Medical Journal*, whilst the nomenclature may have changed, the simple geography of poverty in inner London has not.



Booth's team created minutely detailed maps of the capital, assigning individual dwellings to the various social classes. The new research compares Booth's findings of 1896 with the results of the 1991 census (see maps). Today's poor are wealthy by the standards of destitution that Booth encountered: poverty (the European variety, at least) has been continually redefined throughout the century. But the stability of London's social geography is remarkable. Some parts of south-west London have gone up in the world and some south-eastern parts gone down, but large areas of the capital, especially in the east, are, relatively speaking, as poor as they were a hundred years ago.

All cities, by their nature, require some inequality. They need relatively poor people—often immigrants—to supply cheap labour, and they need down-at-heel areas for them to live in and for new businesses to take root in. Some of the poorest areas on the maps have provided the first addresses for successive waves of (initially) poor immigrants. Tower Hamlets has welcomed diasporas of Huguenots, Jews and, most recently, Bangladeshis. When their lot improves, immigrants tend to move out to leafier suburbs.

Poverty and affluence are much more intermixed within individual districts of London than is the case in comparable cities—a nuance that the maps fail to capture. Even so, this entrenched pattern of poverty seems to contradict the circulatory principles of the market: over the course of a century, the poor areas of Booth's London ought to have attracted investment and gentrification, by virtue of cheap property. Why has that not happened?

Some of the reasons for East London's poverty are geographical, and have produced similar east-west divides in other European cities, such as Glasgow and Paris. The River Thames is widest in the east, so nasty, stinking industries and their workers have always clustered there; the prevailing wind comes from the west, and the rich like to live up-wind of the poor. The advent of heavy industry worsened the pollution; in the 19th century the East End became known as "the abyss". Heavy bombing during the second world war didn't help.

But since most of London's heavy industry has long since gone, there must be other explanations too. One of these might be the east's poor transport infrastructure (a problem which London's mayor, Ken

Livingstone, says he will address). Nevertheless, the maps inescapably suggest a failure on the part of philanthropists and government. Tony Travers, a professor at the London School of Economics, describes the research as a “desperate commentary on 100 years of social policy”.

Some argue that social policy has not just failed to change London’s social geography, but may have helped to fossilise it. Anne Power, also of the LSE, identifies the replacement of slum housing with council estates as a policy which has backfired, by helping to paralyse poverty. Mr Travers points out that areas which have attracted gentrification (such as once-reviled Brixton) tend to have retained their old housing stock, in which well-heeled yuppies now want to live, rather than replacing them with the vast, brutal council estates that put people off moving to areas such as Tower Hamlets. This helps to explain the upward mobility of much-mocked Islington, which combines the right sort of gentrifiable housing with the benefits of a tube station.

Perhaps better housing policy could disrupt the pattern. But Danny Dorling, of Leeds University, one of the authors of the new research, thinks that the reputations of poor areas are becoming harder to dispel. Government initiatives such as the publication of school exam results and, no doubt, research such as Mr Dorling’s and articles like this one, only make the well-off more determined to steer clear of the abyss.

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Economic regeneration

The battle of Bridlington

Jan 11th 2001 | BRIDLINGTON, YORKSHIRE
From The Economist print edition

There is more than a whiff of class warfare in the controversy over ambitious plans to transform a run-down seaside resort into a modern conference and marina complex

BRIGHTON, Bournemouth and Blackpool are the principal Victorian seaside resorts of England. Over the last few decades they have converted themselves into the country's top conference venues as well, creaming off the big money-spinners such as the annual party political conferences. Now Bridlington, on Yorkshire's east coast, wants to join them.

Not only does Bridlington, hitherto a small resort even by the standards of the Yorkshire coast, have the advantage of beginning with the vital letter "B". It also has an ambitious local council. The East Riding of Yorkshire Council has drawn up a £60m scheme to build a huge new marina, hotel and conference facility. If the project goes ahead, it will become the largest such development on England's east coast. It will also irrevocably change the character and geography of this modest, slightly shabby, seaside resort.

Despite all the usual promises of jobs and prosperity, the plan has already run into concerted local opposition. Bridlington has traditionally been a resort and retirement destination for the industrial working-classes of south Yorkshire, particularly miners. To the project's critics, the battle for the future of Bridlington is not just about saving the famous south beach and promenades for future generations to enjoy. It is also about trying to preserve Yorkshire's older, working-class complexion against any further encroachment from the newly affluent of Leeds and beyond.

The council replies that places like Bridlington will have to change, whether old Labour likes it or not. The impetus for the marina plan has come from two sources. The Royal Yachting Association has long argued for a marina in Bridlington, as there is no suitable haven between Lowestoft and Whitby. And the local yacht lobby argues that there is now a pressing need for a modern marina to take all the gin palaces and motor-yachts of locals, many from Leeds, who did well out of the economic boom of the 1990s. The marina plan envisages 500 berths, with up to 120 luxury houses to go with them.

At the same time, the council has concluded that Bridlington is ripe for regeneration. The town prospered with the growth of the coal and steel industries. But since the 1970s, Bridlington, along with those industries, has slipped into a genteel decline. The council points out that the town is now in the bottom 11% on the nationwide index of social deprivation. It has become a magnet for young people on benefit who live cheaply in shabby "multiple-occupancy" houses that were once respectable hotels. With them has come a drugs problem.

The council has already spent £14m trying to tart the place up. Now, apparently, more radical surgery is needed. The council argues that Bridlington's salvation lies in the Edwardian splendour of its Royal Spa Hall and theatre complex on the seafront, overlooking the south beach. It already has a licensed conference venue for 3,200 people, the biggest on the Yorkshire coast. But Bridlington has no large hotel to house conference guests under one roof, as modern customers demand. Consequently, the town currently attracts the C-list of conference events, but not the more lucrative B-list, let alone the A-list. It has hosted the world pool championship, and national domino and cribbage events. The "Philadelphia Church of God", complete with satellite link, has been to Bridlington, as has the Catholic Women's Guild. But the big union and professional conferences stay away.

So the marina plan also includes provision for an up-market 100-bed hotel, and a budget 50-bed hotel. All this would be built on a 33-acre infill site in what is now the bay. The marina and new sea walls would take up another 34 acres. The whole project is at least twice the size of the existing town centre. The council claims that 76.2% of the local population are in favour of it.

But the self-proclaimed Bridlington Protection Group (BPG) begs to differ. In its own survey only 4.3% were in favour of the proposed marina development. The main objection is that the project is on a scale out of all proportion to the size of Bridlington itself, and will destroy forever the views and beaches which drew people to the town in the first place. The council concedes that if the project goes through, there will be nothing to stop a developer demolishing the Spa Hall complex and starting again from scratch, rather than just refurbishing it. The BPG argues that the new hotels will just take trade away from the already hard-pressed bed-and-breakfasts in town.

The social-engineering implications of the project arouse resentment. By importing hundreds of “Yachties” into the town, the council hopes to improve the social make-up of the population and drag Bridlington up-market.The local boat-owners, many of them ex-miners, feel that they are now being priced out of their own backyard.

Due to the size of the project and the controversy surrounding it, the plan will probably go to a public inquiry later in the year. On the outcome of that inquiry will rest not only the future of Bridlington, but also the character of the redevelopment of other seaside monuments to England’s industrial past.

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Interest rates

On hold

Jan 11th 2001
From The Economist print edition

AFTER the surprising cut in American interest rates on January 3rd, Britons have been wondering how long it would be before the Bank of England followed suit. This week it kept the base rate unchanged at 6%, but a cut next month is now widely expected.

An American slowdown or recession will affect the British economy and thus the outlook for interest rates through a number of channels. The most direct of these is trade. America is Britain's largest overseas market, accounting for around 15% of exports and 4% of GDP. Exporters are likely to be hit both by a fall in demand in America and by a loss in competitiveness as the pound strengthens against the dollar. There will also be second-round effects as activity weakens elsewhere in the world economy.

A second channel is investment by American firms in Britain, which account for two-fifths of the total stock of inward investment. General Motors's decision last month to stop making cars at Vauxhall's Luton plant is a worrying portent. Vauxhall has long been in American hands, but the economy could also be hit if fewer American firms now set up in Britain after helping to raise inward investment to record levels.

The third channel is the financial markets. British households are less exposed to equities than their American counterparts, but the City is likely to be less busy if American markets slump. With financial services a key contributor to recent economic growth, this will hurt. There is also a wild card—the danger that a sharp reversal in America's economic fortunes will lead to a financial failure that will spook the markets and batter confidence.

These downdraughts from America now seem sure to reduce growth in Britain this year, maybe by around half a percentage point of GDP. This will allow the economy to absorb the big planned increases in public spending with less inflationary risk. Furthermore, any lift to inflation from a falling pound against the euro is likely to be more than offset by lower oil prices.

The question for the Bank's Monetary Policy Committee this week was therefore whether to cut now or wait a month. One reason for delaying is that January is a key month for setting private-sector wages, so the MPC will have a better idea of pay pressure by early February. Some members of the committee have been worrying about the tightness of the labour market. As long as pay deals prove satisfactory, the Bank can be expected to cut rates next month.

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Africa's women go to work

Jan 11th 2001 | KAMPALA AND OUAGADOUGOU
From The Economist print edition

How to lend small sums to poor Africans to set up small businesses

ON A a steamy morning in a Kampala slum, the men are getting drunk. They sit in circles around pots of brown, sludgy millet beer, sucking it through long wooden straws to heighten the buzz and, through a filter, to strain out the lumps. Seven local women support their families by running the Otim bar. They brew the booze, too, in a large oil drum with the Shell logo still visible on the side. The business has grown rapidly, mainly because the owners, despite being poor, have access to credit.

Panos

Cash to help them trade

Microcredit—lending small sums to poor people to set up or expand small businesses—is an effective way to alleviate poverty. The poor cannot usually borrow from commercial banks, because they lack collateral. Loan sharks lend without security, but often at interest rates of 10-20% a day. Hawkers who borrow from sharks to buy a day's stock often have to hand over most of their profits. Failure to repay can result in broken legs.

Microlenders try to satisfy poor people's hunger for credit less brutally. Since the 1970s, organisations, such as the Grameen Bank in Bangladesh and Accion International in Latin America, have encouraged poor borrowers to form groups to cross-guarantee each other's loans. In the Grameen model, one of a group of rural women takes out a microscopic loan, often as little as $25, to start a business. Only when she repays it can the next woman in the group borrow. Peer pressure makes sure that default rates are minimal.

The idea has spread. All told, about 14m poor people now borrow from microlenders, a number that has increased by over 80% in the past two years, according to the Microcredit Summit Campaign (MSC), a lobbying group. Each borrower is thought to support about five family members. Most borrowers are women. Microlenders prefer to lend to women because they are likely to use additional income to feed and clothe their children. Men, as the proprietors of the Otim bar can testify, may blow the spare cash on booze.

Microcredit works better than handouts for two reasons. First, it fosters enterprise rather than dependency. Second, a well-run microcredit scheme can be self-sustaining. Repayment rates of over 98% are common.

The business plans backed by microfinanciers tend to be breathtakingly simple. Take Pakmogda Zarata, a successful micro-entrepreneur from Burkina Faso, one of Africa's poorest countries. Ms Zarata runs a restaurant in a marketplace near Ouagadougou, the capital. The place cost almost nothing to build: roughly-hewn logs prop up a ceiling of thatch and old dustbin liners; there are no walls to speak of. The menu is unpretentious. "We only serve rice," she says, "but we do cook it." By taking out a series of small loans from the local branch of the Fédération des Caisses Populaires du Burkina Faso, the country's main microlender, Ms Zarata was able to buy rice wholesale rather than retail. Her profits rose. She now employs seven people, can pay her children's school fees, and swaggers around town on a second-hand motorcycle.

As microfinance has globalised, it has run into local problems. Not all poor communities are as tight-knit as those in rural Bangladesh. The urban poor, being more mobile, do not always know their neighbours well enough to act as guarantors for them. In the shanty towns of Africa and Latin America, something called "stepped lending" often works better. A would-be borrower puts up a little money of her own. The microfinancier lends her roughly the same amount again. If she repays promptly, she can raise a larger loan. The better her credit record becomes, the more she can borrow. The carrot of more credit

discourages defaults as effectively as peer pressure does in villages.

The MSC hopes to see 100m poor borrowers receiving microloans by 2005. To reach such an ambitious target, microlenders will need much more capital. Support from donors is buoyant, but not enough. To expand faster, microlenders need to tap capital markets. This is not easy. Many microlenders break even, but few produce the kind of returns that might entice hard-nosed capitalists to give them their backing.

Some, however, are creditworthy enough to borrow at commercial rates. In Bolivia, BancoSol, a microlender with over 70,000 clients, has issued $5m in bonds backed by its lending portfolio, $2m of which were bought by foreigners. Commercial banks can sometimes be persuaded to take equity stakes in microlenders, partly to make contact with up-and-coming small businessmen with a sound credit history. For example, two Peruvian banks own shares in Mibanco, Peru's first for-profit microlender. According to Accion International, perhaps 50 of the world's 7,000-10,000 microlenders can cover their own operating and financial costs unaided.

In many poor countries, however, disease makes this difficult. In Africa, AIDS often causes borrowers to default, either because they are too ill to work, or because their family's medical bills have soared. A survey of microborrowers in 14 African countries found that 95% had trouble paying medical bills, 77% had trouble paying for funerals, and half had difficulties finding money to look after orphans, usually the children of relations who had died of AIDS.

Microlenders often try to tackle this through education. In Burkina Faso, where diarrhoea is a killer, those who want to get their hands on a loan must first learn about washing them. In eastern and southern Africa, many microlenders promote condoms.

A more challenging idea is to combine microcredit with micro-health-insurance. FINCA, a microlender in Uganda, runs a pilot scheme allowing members free treatment for a range of problems at a mission hospital in Kampala, in return for a small quarterly fee. The scheme is popular, but racks up big losses. Before it can be duplicated, FINCA needs to find ways to encourage healthy people to join the scheme, and discourage frivolous visits to the doctor. If micro-insurance can be made to work, the Internet will ensure that the idea is swiftly copied. Globalisation is not just for the rich.

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Sierra Leone and Guinea

Fuelling Africa's wars

Jan 11th 2001
From The Economist print edition

REBELS in Sierra Leone who once pointed their guns westwards, towards the capital, Freetown, are now moving north and east. Since September they have been attacking across the border into Guinea, where, say the Guineans, over 700 people have been killed. Guinea has begun to retaliate, both by dropping bombs and by attacking Sierra Leonean refugees.

Fighting, which was reported in the Kindia region and in Yagouya last year, has now spread to Kissidougou and Gueckedou. Guinea blames the Sierra Leonean rebels, helped by soldiers from Liberia. The United Nations High Commissioner for Refugees managed this week to reach some of the 250,000 people, all but 70,000 of them refugees from Sierra Leone or Liberia, displaced by the latest fighting. In all, there are 420,000 refugees in Guinea. Many of the Sierra Leoneans and Liberians are now pleading to be sent home, to escape revenge attacks by Guinean troops and by local people who blame them for the rebels' behaviour.

There are several reasons for the rebels' eastward turn. One is that the pro-government forces in Sierra Leone, buttressed by 600 British soldiers, are faring slightly better than six months ago. The Revolutionary United Front (RUF) is even talking to the UN about deploying peacekeepers in part of the territory it controls. This week Lieut-General Daniel Opande, the new Kenyan head of the UN force, met Issa Sesay, head of the RUF, in Magburaka, in rebel-held land. But the rebels are not ready for peace. They know that the international force, after the withdrawal of its Indian and Jordanian peacekeepers, and despite the arrival of 500 Ukrainian soldiers, will be well under strength for months to come, with just 10,500 troops.

The rebels may also be chasing new resources. The RUF survives by looting villages, mining diamonds and abducting recruits. Guinea's diamonds, and its crowded refugee camps, make tempting targets.

Another explanation is that the rebels have been told to attack Guinea by the Liberian government. The links between Liberia and the RUF were detailed in a recent UN report to the Security Council, which found

> unequivocal and overwhelming evidence that Liberia has been actively supporting the RUF at all levels, in providing training, weapons and related *matériel*, logistical support, a staging ground for attacks and a safe haven for retreat and recuperation, and for public-relations activities.

The report described President Charles Taylor of Liberia as "actively involved in fuelling the violence in Sierra Leone" and named several businessmen, said to be close to the president, who are profiting from the war. If the war were made even wider, it would allow these businessmen to make yet more money from arms, diamonds and other enterprises. Guinea's president, Lansana Conte, this week accused Liberia's government of trying to snatch Guinea's mineral wealth.

Guinea's army has not been able to defend all of its long frontier; recognition of that came last week when Mr Conte sacked his defence minister. A bit of help comes from West Africa's regional body, ECOWAS, which says it will deploy 1,670 soldiers on Guinea's borders, with a mandate to stop incursions and to defend civilians. Half the soldiers will come from Nigeria and the rest from Mali, Niger and

Senegal. Western governments will pay for their equipment.

The UN report suggested that arms and diamond traders who operate illegally might be dissuaded by tighter sanctions, and by better monitoring of those sanctions. For example, stricter surveillance of air traffic in West Africa would help trace arms shipments. A diamond-certification scheme, which is already being tried in government-controlled parts of Sierra Leone, might be extended to other diamond-producing—and, crucially, diamond-trading—areas.

A fainter hope is that the traders might be caught. In France, Jean-Christophe Mitterrand, the son of the late president, François Mitterrand, was recently arrested on suspicion of helping to set up arms deals in Angola, despite an international embargo. As in Sierra Leone, the war in Angola is being prolonged by business interests.

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Israel

Sheep or wolf?

Jan 11th 2001 | JERUSALEM
From The Economist print edition

THE sheepskin slipped slightly this week from the purposefully pacific figure of Ariel Sharon, the front-runner for Israel's prime-ministerial election on February 6th, exposing what Ehud Barak insists is the grizzled general's immutably lupine proclivities. "The Oslo accords no longer exist. Period," Mr Sharon informed an ultra-hardline magazine in an interview. His campaign strategists held their heads in their hands.

Mr Sharon, chairman of the Likud, leads Mr Barak, the incumbent Labour prime minister, by a whopping 30 points, according to two opinion polls published last weekend. His campaign has been built on a quiet makeover of the veteran's warlike image. "Only Sharon will bring peace," is the slogan. "Peace that will protect us," is the television jingle. The message is designed to reassure middle-of-the-road voters who are disappointed with Mr Barak, but are still chary of Mr Sharon's tough record and his reputation abroad as a warmonger.

Mr Sharon has been co-operating like a lamb with his Israeli and American professional advisers, steering clear of probing interviews, declining Mr Barak's challenge to hold a series of televised debates, confining himself to cheerfully opaque proclamations. He has a plan, he says, to suppress the *intifada* without risking military escalation, and to negotiate a peace accord with the Palestinians without surrendering any part of Jerusalem or the Jordan valley. Mr Barak will be his defence minister, he promises, to the chagrin of the hardliners in his own camp. "He's a good soldier. Under me, in a unity government, he'll function fine."

But *Kfar Habad*, a little-known magazine, has succeeded in drawing him out. "When I spoke of painful concessions," he told the interviewer, "I meant that we won't now reconquer Nablus and Jericho [cities ceded to the Palestinians in the early phases of the Oslo process]. This is a very painful concession for me, because these places were the cradle of our national birth and no nation willingly gives up such historic assets unless it is defeated in war, which we were not." Labour spokesmen pounced, claiming that "the real, extremist Sharon is showing through the false garb of moderation."

Mr Sharon is having trouble, too, holding together the hugely disparate coalition of nationalist, immigrant and religious parties which are all separately supporting his candidacy, and relishing the prospect of returning to power on his coat-tails. On January 7th, he dutifully donned a black skull-cap for a reverential photo-opportunity with Rabbi Ovadia Yosef, spiritual leader of the powerful Shas party. But next day he veered over to placate his other supporters, angrily telling Shas members that women would sing at the festive opening of his campaign on January 10th, and if that offended their religious sensibilities, they need not come.

These flashes of vintage Sharon helped corroborate an opinion offered the day before by Mr Sharon's doctor, to the effect that he is quite up to the rigours of the prime ministership. There had been a spate of rumours that Mr Sharon's unwonted quiescence attested to a decline of his physical prowess: aged 73, he was said to be vacant and forgetful. Publicly, the Likud lambasted Labour for spreading these untruths. Privately, a source close to Mr Sharon fingered a source close to his Likud colleague, Binyamin Netanyahu, a perhaps frustrated former prime minister.

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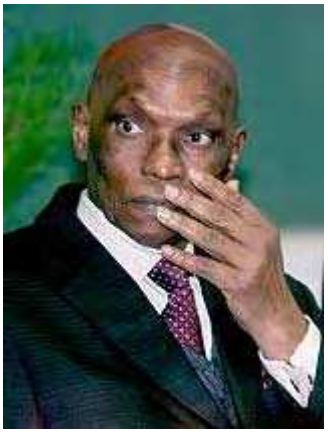
Senegal's voyage to development

Jan 11th 2001 | DAKAR
From The Economist print edition

TEN months after they had happily thrown out their everlasting government, the Senegalese were back at the polling booths. On January 7th, with a proud turnout of 66%, more than 80% of them voted for a new constitution that enshrines the right to form opposition parties, confirms the status of the prime minister and, for the first time, gives women equal property rights with men.



Wade's firm hand

It looks like smooth sailing for Abdoulaye Wade as the new president, in roughly his own words, launches Senegal, a West African democratic flagship, on its voyage to development. Yet some Senegalese worry that their president is showing autocratic tendencies—hardly surprising in a man of 74, who has been trying to be president for the past 26 years. His democratic intentions are plain. But he has already sacked one minister who disagreed with him in what was seen by the rest of the cabinet as a coded message: do it my way or else.

The new constitution, as he promised, cuts the president's term of office from seven years to five (it was stretched when Abdou Diouf won the presidency, for the third time, in 1993). But it also abolishes the Senate and gives the president power to dissolve the one remaining chamber, the National Assembly, after it has been in place for two years. When Mr Wade does this—which he could quite soon—new parliamentary elections are likely to flood parliament with his supporters, giving him a free hand for the rest of his term.

A free hand, but he faces a new problem in satisfying his people's heightened expectations. For instance, at his personal request, a new bus service was launched in Dakar on January 1st. But the capital's 2m inhabitants were horrified to discover that only 60 buses had been provided, and the queues at the bus stops have never been longer.

His graver problem is the Casamance, the partly-cut-off region in the south-east, which has huge tourist and farming promise, but has fought an intermittent secessionist war since 1982. At the end of November Mr Wade announced, with fanfare, the opening of negotiations with the rebel Movement of Democratic Forces of Casamance (MFDC). He called for an impromptu national holiday. But, after only three hours of talks, the MFDC stormed out, and rebel infighting led to several deaths in the days just before Christmas.

The MFDC's leader, Abbé Diamacoune Senghor, is a determined man. According to a veteran Senegalese journalist, Diadie Ba, "Diamacoune may not be saying it out loud, but he won't call off the rebels until what he calls 'the country of the rivers' is granted full independence". This is the one thing that no Senegalese government will offer him.

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Iran

No room for Afghans

Jan 11th 2001 | MASHHAD
From The Economist print edition

AP

Time to move on, and out, says Iran

JUST under a year ago, two uneasy partners, the Iranian government and the United Nations High Commissioner for Refugees (UNHCR), cut a deal on a subject of keen mutual interest: the future of Iran's 1.4m Afghan refugees. Iran has long wanted to repatriate as many as possible of this vast refugee population; the UNHCR wants Iran to give asylum to Afghans who fear persecution by the Taliban, Afghanistan's fiery government. At the time, the joint programme that the two set up last year seemed a step towards both objectives. But it came dispiritingly to a halt on December 31st.

Bad luck and bad judgment played a part. During the year, over 130,000 refugees were persuaded to return to Afghanistan voluntarily. But a devastating drought, and the Taliban's Sunni Muslim bigotry, led to an even greater number, many of them Shias, making the trip in the opposite direction. It was probably a mistake to decide to dole out $40 (later $20) to each returning Afghan. Many "refugees" made a handy living—by the standards of this impoverished part of the world—by volunteering for repatriation, collecting their reward, then slipping back into Iran to rejoin the queue. More important, many people now question the wisdom and morality of sending the refugees back to towns in Afghanistan that were already overflowing with internally displaced people, and hungry ones at that.

Iran's government says it suffered for sticking to its side of the bargain. While the programme was in force, Iran obediently granted temporary asylum to some 80,000 Afghans. But the 150,000 or so who "failed" asylum interviews and were ordered to leave Iran almost certainly stayed where they were. The Iranians feel short-changed, especially when they recall an optimistic UNHCR estimate that 3,000 refugees might be repatriated every week under the programme. Making matters worse, even if the programme could now be restarted, donors are no longer providing the money needed to make it more of a success.

At the same time, the Iranians have hardly covered themselves in glory. They forgot, for instance, their promise to set up a screening centre for asylum-seekers in Tehran. Médecins Sans Frontières, whose doctors had agreed to check the medical condition of each returning Afghan, withdrew from the programme, accusing the government of packing off people too ill to travel.

An annexe to Iran's current development plan instructs the government to expel all foreigners who do not have work permits, except for those who fear persecution in their country of origin. No one knows how the government intends to interpret the proviso, but the interior minister last week promised speedy action to "streamline" Iran's Afghan population. Given that few Afghans have work permits, implementing the annexe could have catastrophic results.

It is all a long way from the days when Iran's Islamic leaders, in an exemplary show of generosity, threw open their doors to their Afghan co-religionists after the Soviet invasion of 1979. They gave more than 1m of them residency rights, and turned a blind eye to the hundreds of thousands who worked illegally. In contrast to Pakistan, which shepherds most of its 1.2m Afghan refugees into camps, Iran has allowed all but a fraction to live normal lives in its cities. Refugees who came before 1992 can enjoy Iran's social services.

But Iran has tired of this largesse. Nowadays, Afghans are blamed for the country's economic and social

woes. In Mashhad, the capital of Iran's eastern province of Khorasan and home to some 400,000 refugees, the provincial governor accuses local Afghans of drug-running and kidnapping. Influential local people—the editor of the biggest provincial newspaper, for instance—want lots of them put in camps. In Tehran, the minister of labour thunders that undocumented Afghans have taken a million Iranian jobs, and fines are being levied on firms employing them. Iran's image-makers may not permit the horrors that would ensue from mass deportations, but the days of sectarian solidarity are over.

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Oil, diamonds and danger in Angola

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From The Economist print edition

AP

IMAGINE two countries. The first, with one of the fastest-growing economies in Africa, will receive $3.5 billion of investment from the international oil industry each year for the next ten years. By 2005 it will have become Africa's largest oil producer. The second is rated by the UN's Human Development Index a dismal 160th out of 174 countries.With a third of its children dying before their fifth birthday, and with two-fifths suffering from malnutrition, it is considered by Unicef to be "the worst place in the world to be a child". Both descriptions fit Angola, home to shocking juxtapositions.

After decades of civil war between the government and the UNITA rebels, most Angolans no longer wish for much more than to survive from one day to the next. Yet the offshore oil industry, and even the onshore diamond industry, continue to thrive, the revenue financing the war, on both sides, and fattening the pockets of the warlords. Most people get no benefit whatsoever from oil or diamonds; they are kept alive with the help of the hundreds of international aid agencies working in Angola.

But the agencies are growing weary with picking up the pieces left by the country's war, and some are voicing their frustrations in public. At the end of last year, Médecins Sans Frontières (MSF), which won the 1999 Nobel peace prize, released a strongly worded report; this followed on the heels of two other hard-hitting documents from World Vision and Save the Children. All three pin the blame on the Angolan government and the Angolan rebels—and international oil and diamond companies. They all point out that the country has the resources to look after its people, if it cared to do so.

The MSF report illustrates this argument with health statistics. In 1999, it says, only 2.8% of the budget was spent on health. In the city of Kuito, one of the areas worst hit by the war, only 1.2% of the central hospital's requirements is provided by the government. The shortfall has to be made up by aid agencies. "Oil production in the country is estimated at close to 800,000 barrels a day," writes MSF, "yet there is not a drop of diesel for the hospital generators, the only source of power in most large hospitals." This neglect, says MSF, is not, as the government claims, a consequence of the war but "the result of deliberate choices".

Donor fatigue is making it hard for the relief agencies to raise money for their Angolan operations. The UN has just launched an all-agency appeal for Angola for 2001. It is asking for $202m but will, as in previous years, be lucky to raise half of that. Adding insult to injury, the Angolan government regularly complains that the relief groups are not doing enough. It also makes their work harder by not issuing work visas: MSF alone is wasting $100,000 a year on flying its staff in and out of the country to renew their temporary visas.

Some aid workers have begun to ask themselves what they are doing. Clearly, they are helping to keep millions of people alive. Yet, by relieving the government of responsibility, are they too contributing to the continuation of the war?

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Wave goodbye to the family car

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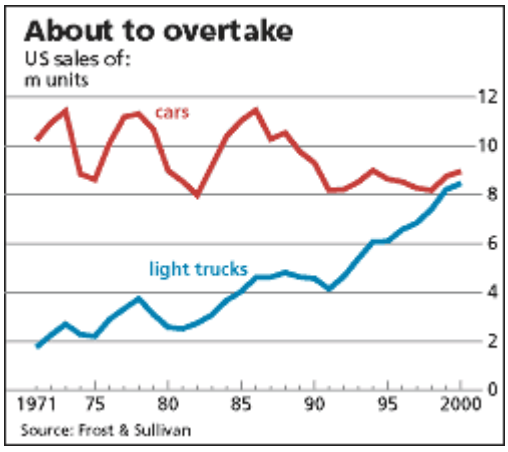
Hulton Getty

Motown is slamming on the brakes as a slowing American economy affects sales and the battle shifts to producing a wider variety of vehicles

LOOK around the car park; almost any car park. The once ubiquitous family car is becoming lost in a sea of other vehicles of all shapes and sizes. There are big and small four-wheel-drives and the like, collectively known as sport-utility vehicles (SUVs); there are minivans—or "people carriers"; there are pick-up trucks; there are boxy urban-utility vehicles; there are micro city cars; and there are sports cars of every dimension. All the big car makers have been racing to produce such offerings, because demand for them has grown and their profit margins are more generous. At the North American International Auto Show in Detroit this week, it was the new SUVs, minivans and pick-ups that carried the car makers' hopes for the future.

This change in the car business took hold gradually throughout the 1990s, most strongly in America, the world's biggest car market. Last year a record 17.4m cars and light trucks (a category which, in America, includes pick-ups, SUVs and other car mutants) were sold. But from being a relatively small and specialised part of the market, the variants have increased in popularity so much that sales of light trucks in America are now almost as big as sales of cars (see chart).



Many of these different sorts of vehicle have been hugely profitable for manufacturers, which have at times been unable to keep up with demand. Indeed, industry analysts reckon that whatever money General Motors (GM), Ford and Chrysler made last year came mostly from their light trucks. This helped to subsidise overseas losses, and to cushion Chrysler's enormous domestic losses. If Detroit's "Big Three" had relied on cars, they would be in deep trouble: many traditional American family cars now sit around on car lots until big discounts tempt buyers. A similar story is beginning in much of Europe and the rest of the world.

Yet despite the growing market for light trucks, GM, Ford and Chrysler all lost market share in 2000 to European, Japanese and South Korean producers. The overseas competitors are churning out a blistering array of SUVs, minivans and pick-ups, not only for export to the United States, but also from their factories based there—which are often newer and more efficient than those run by the Detroit trio.

And now the American economic slowdown, or even possible recession, is starting to bite. The car industry is always one of the first to suffer. Autopolis, an industry research firm, reckons that, thanks to the gloomier economic outlook, car and light-truck sales in America could decline by as much as 20% over the next three years—and the fall could be even worse. With more offerings in the light-truck

sector, profit margins seem sure to decline. Financial analysts have been swiftly downgrading their estimates of car makers' future profits.

The industry has not faced such a downturn, with the inevitable rounds of plant closures and lay-offs, since the early 1990s. Analysts such as Jay Ferron at PricewaterhouseCoopers worry that some factories, once closed, may never reopen. The prospect seems gloomiest at Chrysler. DaimlerChrysler, the German group that now owns America's third-largest car maker, has sent a new team of executives led by Dieter Zetsche to try to restore Chrysler to health. It is in a precarious position: the company lost $500m in the third quarter, and its losses are expected to more than double in the fourth quarter. Many of the firm's troubles are caused by mistakes in the light-truck sector. Mr Zetsche intends to unveil a turnaround plan in late February, but his team is already demanding that suppliers slash their prices.

Make it flexible

In previous economic downturns, the weakest companies and factories have soon found themselves in trouble. During the oil crisis of the 1970s, Detroit was forced to "downsize" its models to compete with more fuel-efficient imports. As the Japanese producers set up car plants in America and Europe, the battleground shifted to building cars that were more reliable and had fewer defects; it then moved on to manufacturing vehicles on "lean" production lines. Factories shaped up, packed up or were taken over. What counts now is the flexibility to make different sorts of vehicle, especially on the same production line. Many of the SUV-type vehicles share parts with cars.

What this means is that operations which rely mostly on making ordinary cars are now especially vulnerable. In England, for instance, Ford is closing its car factory at Dagenham, and GM is ending production at Luton, plants that have specialised in building mid-sized cars. GM's own figures show that the market for such cars has shrunk by 20% across Europe in the past five years. In the United States, GM is even phasing out its Oldsmobile division, famous as the builder of "cars your father used to drive".

That product varieties will continue to proliferate was clear at the Detroit show, where nearly 60 "concept" and production vehicles made their debut. In SUVs alone, there will soon be 70 models on the market, according to AutoPacific, another industry consultancy. All-new products such as Nissan's monster pick-up (see article), GM Pontiac's Vibe, BMW's Mini Cooper, and Chrysler's Jeep Liberty, are slicing and dicing the market into ever smaller segments. In the 1960s, GM could reckon on its bestselling car racking up sales of 1m or more a year. Today, it would be lucky if its top-selling passenger car managed 300,000 units.

This market fragmentation changes the industry's economics. Because it is more expensive to produce and market a number of small-volume vehicles rather than one big seller, car manufacturers have to adopt a variety of cost-cutting strategies to survive. One approach is the so-called "platform" strategy, in which common components are shared wherever possible between different models. Hence, under their skins, the cars from three of Ford's brands, the Jaguar S-Type, the Lincoln LS and the new Ford Thunderbird, have numerous parts in common. The key, stresses Ford's chief executive, Jac Nasser, is to ensure that the parts that differentiate one vehicle from another in the buyer's mind remain unique.

As part of his turnaround plan, Chrysler's Mr Zetsche will also import more flexible manufacturing, so that numerous models can roll down Chrysler's assembly lines. A big advantage will be that when demand for one product slows, production of a more popular vehicle can be ramped up. Toyota is reckoned by the industry to be the master of flexibility (as it was of lean production).

This is not to say that ordinary cars are going to disappear altogether. The challenge is to make them more interesting. To achieve that, some producers are going "retro". A number of cars which borrow styles from decades ago appeared at the Detroit show. Ford's new Thunderbird and even America's car of the year, Chrysler's PT Cruiser, have the look of a 1950s hot-rod about them. The PT Cruiser was one of the few bright spots for Chrysler, which some analysts think could eventually be replaced by Toyota as America's third-biggest car company.

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Luxury monsters

Jan 11th 2001 | DETROIT
From The Economist print edition

NISSAN'S Alpha-T is no ordinary pick-up truck. It's very big, and it looks as if it has been made from a solid block of steel. The impression is deliberate. Its designers say the vehicle is inspired by a power tool, which is appropriate enough, because Nissan is determined to drill into the only remaining segment of the American car market still largely controlled by Detroit's "Big Three".

Although Nissan's pick-up is mostly a styling exercise for show at this week's North American International Auto Show, in a couple of years something like it will start to roll off the production line at the Japanese company's factory in Mississippi. By then, the competition will be formidable. Ford, for instance, will be fighting back with its Lincoln Blackwood, which bolts the front end of a large and luxurious sport-utility vehicle to the rear of an F-150 pick-up. The cargo bed is wrapped in wood, lined with stainless steel and covered by a power-operated tonneau. Lincoln's vehicle director, Al Kammerer, describes it as "the world's largest trunk".

Ford is hoping that the Blackwood will carve out a niche for large and luxurious vehicles that are neither car nor truck. Ford's rival, General Motors, has similar ideas for its luxury division, Cadillac. Both Lincoln and Cadillac are desperately trying to find new ways to revive their image. Fifty years ago, the two marques were synonymous with luxury, but they have lost most of their cachet. Few brands have fallen further than Cadillac, which has been overtaken not only by Lincoln, but also by Germany's Mercedes and Toyota's Lexus.

Demand for Lincolns and Cadillacs comes almost exclusively from Americans. If it is to be more competitive at home, Cadillac's general manager, Mike O'Malley, believes that its products must be marketable abroad. But this will not be easy, especially if Lincoln and Cadillac continue to build big cars and even larger trucks, which are often too thirsty for other countries.

Ford has hired Gerry McGovern, a former BMW stylist, to redesign its Lincolns, and it has rolled the division into its Premier Automotive Group, which includes its high-profile European brands. To help Lincoln break further away from its past, its headquarters—and, soon, the rest of the Premier Automotive Group—will be moved from Detroit to southern California, where foreign car firms dominate the market. The idea is that Californians will inspire Lincoln to do great things. Perhaps Cadillac should move there too. Americans would love to see a return of the '59 Cadillac Coupe De Ville with its enormous fins. In pink, of course.

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American airlines

Too many here, too few there

Jan 11th 2001 | NEW YORK
From The Economist print edition

AMERICA'S most successful disaster is its airline industry. Passengers face overloaded planes, high fares, poor service, late arrivals and frequent air-traffic-control breakdowns—yet still they flock to fly, in ever-growing numbers. Together, however, the country's ten biggest airlines have managed, despite swelling demand and rising prices, to lose money in the most recent financial quarter, a state they have flirted with on and off for most of their existence. People want to fly, and every year more of them can afford to do so, yet the process is becoming increasingly painful for all parties involved. Why, for heaven's sake?

AP

First class? What's that?

The larger airlines point to excessive fragmentation—too many of them, and none that are as big as they need to be to run efficiently. Fuelled by this logic, they have embarked on a wave of consolidation, capped on January 10th by American Airlines' bid to buy TWA, a once-great name now in bankruptcy protection. American is also buying jets and landing slots from US Airways, a move that would allow that airline to consummate its own merger with United, which was announced last year but has been stalled by regulators.

Consumers mostly oppose such mega-mergers. To them they hearken back to the massive consolidation of the Reagan era, when a few powerful carriers ended up operating as a near-cartel. Analysts, meanwhile, blame America's state-run airport and air-traffic-control systems, which have failed to keep up with the industry's growth, complicating a messy picture.

This is no theoretical debate: the Department of Justice must decide whether to allow the American/TWA deal, along with the United/US Airways merger. It is a tricky issue that may yet drag on for months. On the one hand, the financial problems of the industry argue for letting it have its way with a more relaxed antitrust policy: after all, the current arrangement is not working. A few strong carriers with broad national networks, say United, American and the third big carrier, Delta, may compete more effectively than the mix of regional or semi-national ones that exists at present.

On the other hand, at many airports such consolidation means less competition, not more. A report by the General Accounting Office in December found that the United/US Airways deal alone would reduce competition in 300 markets across the country, in some cases reducing the number of airlines serving an airport to just one.

Airlines have been notoriously anticompetitive in the past, sometimes engaging in brutal price wars to force out weaker competitors on individual routes, and then raising fares. Regulators have learnt to look at these deals from regional and local perspectives, rather than from a purely national view, because that is where the abuses tend to show. The Justice Department has initiated a case against American for predatory pricing at its Dallas-Fort Worth hub. Now the department—even under a new, more business-friendly administration—will face strong pressure to block both merger deals on anti-competitive grounds.

Should it? The answer depends on how much America's air travel has changed since the bad old days. From a broad perspective, the answer is, "a lot". Thanks to technology, airfare pricing is now more transparent to the consumer, and easier to police. New Internet services allow passengers to compare hundreds of different combinations of route and carrier, something that was once the domain of the travel agent alone (who may have been in the pocket of an airline). The hub system has demonstrated the power of networks, where bigger is better. And the introduction of new, smaller jets, such as the

Embraer ERJ-145, allows more routes to be served economically.

But all this is of little consolation if a mega-merger means that your local airport will now be served by a single giant. Sadly for the airlines, consumers so threatened tend to speak more loudly than those who stand to see broader gains, and they have powerful legislators on their side. The battles in Washington over these deals have only just begun.

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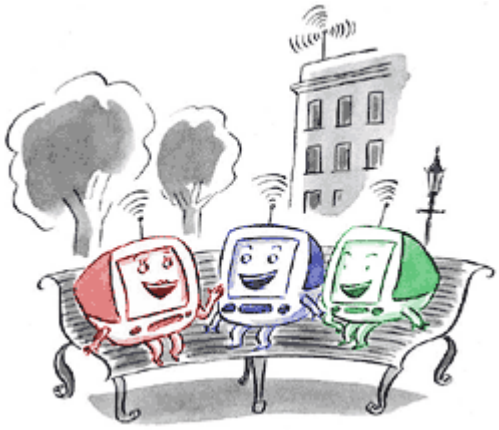
The wireless Internet

A LAN line

Jan 11th 2001 | SAN FRANCISCO
From The Economist print edition



ALMOST unnoticed, a new wireless data networking standard, unmemorably called 802.11b, has been gaining ground on more widely touted ways of gaining wireless access to the Internet. University students, company staff and computer geeks are increasingly using wireless LANs (local area networks) to log on while they are out and about. Companies such as MobileStar and Wayport are installing the necessary equipment in airports, hotel lobbies and sports stadiums. There is even a growing "free-network movement" of sorts, whose members provide free wireless Internet access in their neighbourhoods.

On January 3rd, the technology got another boost when Microsoft and Starbucks announced that they are to join forces to offer wireless access, using 802.11b among other standards, in most of Starbucks' coffee outlets over the next two years. The deal, some analysts say, is a further sign that 802.11b could become a serious competitor to better-known wireless technologies such as Bluetooth, HomeRF, or even next-generation cellular networks.

Such a prediction would have sounded ludicrous only a couple of years ago. Wireless LANs were then relatively slow, expensive and rare. But in November 1999, America's Institute of Electrical and Electronics Engineers (IEEE) ratified the 802.11b standard for wireless data connections of up to 11 megabits per second—200 times faster than a fast PC modem. Once big manufacturers such as Cisco and Lucent started building hardware based on the new standard, prices for the gear began to tumble.

Apple was the first to launch an 802.11b product line (called AirPort). All its computers now include a built-in antenna which, in conjunction with a networking card, can exchange data with a small base station plugged into a broadband Internet connection up to 45 metres (150 feet) away. Although some PC laptops now come pre-equipped with wireless hardware, most users buy a credit card-sized piece of hardware that goes into a laptop's card slot and doubles as an antenna. Including a base station, networking kits for PCs start at around $400. They were popular Christmas presents in California last year.

Wireless networking, even over such short ranges, is attractive for several reasons. Because a single base station can support several machines, all the machines in a house or small office can be connected without having to run cables everywhere, and they can be moved around easily. It did not take long for inventive individuals to begin using the technology, developed for indoor use, outside. For instance, in parts of San Francisco's Presidio, a former military base turned vast park, you can sit on a bench and surf wirelessly—thanks to Brewster Kahle, a high-tech entrepreneur and founder of SFLan, an experimental Internet service provider. He and his friends have put up antennae on several buildings nearby.

SFLan and similar efforts such as Consume.net (in London), Guerrilla.net (in Cambridge, Massachusetts), and Seattle Wireless are reminiscent of the open-source movement, whose members contribute to free software such as the operating system Linux. Mr Kahle hopes that his initiative will grow into a citywide wireless LAN "from anarchistic co-operation"—meaning an army of volunteers putting up radio beacons on their rooftops.

Such efforts reveal one big barrier for the technology, however: it is not yet clear how the economics will work. Free wireless LANs will sooner or later encounter free-rider problems. Commercial providers will succeed only if users are willing to pay a fee. One possibility is that firms which make their money

elsewhere, such as airlines, will offer the service as a free “extra” to attract customers.

There could also be technical problems. The 802.11b standard uses the unregulated 2.4 gigahertz radio band, which is already overloaded with cordless phones, microwave ovens and streetlights. Users need to be computer-savvy to configure their connection. And security was not a priority when the standard was designed. Hackers have penetrated corporate networks by driving up to the parking lot, switching on a laptop, and logging on to the firm’s wireless LAN.

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Face value

The geek as boss

Jan 11th 2001
From The Economist print edition

Technology used to be something that CEOs left to a nerdy deputy. Now, like it or not, it is part of their job, which helps explain why Tom Glocer, a young American, is to be Reuters' next boss

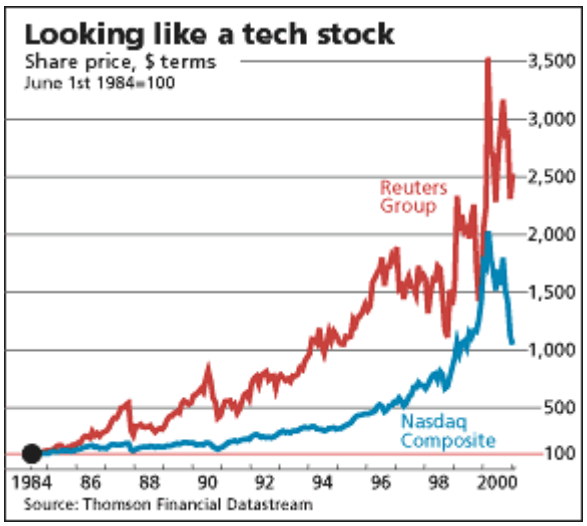
ONCE upon a time, chief executives were supposed to know it all—or to be wise enough to surround themselves with those who did. It was part of their mystique: total command of the big picture combined with the ability to delegate technical details. Yet today's bosses find themselves spending their summers in technology boot camps, in which 20-somethings show them how to send instant messages, steer search engines and download files.

Jack Welch and his deputies at GE, for instance, are practising "reverse mentoring", inviting some nose-ringed youth to come in regularly and teach the old guys a techy trick or two. And at e-business conferences, old-economy bosses have recently been spotted taking notes (and—let's be honest—occasionally sleeping) in the seats that their designated tech deputies used to have to themselves.

Why do the giants of industry choose to humiliate themselves in this way, when they could pay people to surf and otherwise understand technology for them? The short answer is that they have no choice: the chief executive is becoming more and more the chief information officer as well. Technology strategy is now part and parcel of business strategy, and it is one of those things that, like international experience, cannot be mastered from a distance.

There is, however, an alternative to teaching an old chief executive new tricks: pick a new one who already knows them. That is, in effect, what Reuters has done by its selection of Tom Glocer, a 41-year-old American, to replace Peter Job, who is retiring in July. Mr Glocer, an unpretentious insider who formerly ran Reuters' American businesses, is no obvious nerd. He is a lawyer who joined Reuters seven years ago to work on mergers and acquisitions, and quickly moved up the ranks. Reuters is an odd combination of a financial-data provider, a 150-year-old news-wire service, and even a trading platform. But it is rarely thought of as a technology company. Yet, as Mr Glocer talks about the company, the inner geek in both of them is revealed.

Technological competence comes in three types. There are those who studiously try to keep up because they think they should. There are those whose day-to-day jobs require that they know their tools. And there are those who are instinctively attracted to technology, whose knowledge exceeds all reasonable professional requirements and sometimes verges on obsession.



Mr Glocer is of the third type. While working for a New York law firm, he wrote simulation software that is still used to teach litigation techniques in law schools. He has to stop himself in mid-interview from veering off on a wild tangent about the complexities of the "Java sandbox". (Don't ask: but it has nothing to do with Indonesian beaches.) For Christmas he gave those who report directly to him portable MP3 players—with instructions to fill them with downloaded songs "that best encapsulate the challenge for Reuters in 2001". The assignment no doubt made them all the more deeply fond of the previous year's present of a simple crystal bowl.

Shifts in self-perception

The fact is that Reuters is more of a tech firm than it first appears. Aside from its own software and communications infrastructure, which is huge, it owns about half of Tibco, a leading e-business software firm, and it has nearly $5 billion in other technology investments. It is starting to think of itself as a technology firm, too. Mr Glocer describes its main advantage over such competitors as Bloomberg, Dow Jones and Thomson Financial as being not the strength of its news-gathering organisation, nor the accuracy of its data, but the "open platform" nature of its technology infrastructure.

This is not Mr Glocer's invention—it was Mr Job who decided in the early 1990s to switch from selling services on custom-made Reuters terminals to selling them on generic PCs. At the time this was a daring bet that the efficiencies of a common standard would more than compensate for the inability to charge a premium for hardware. Now the company is taking the whole notion one step further, embracing Internet technology both internally and for its client services. This is considerably harder to get right. During Mr Job's tenure, Reuters was criticised for being slow to embrace the Internet. Mr Glocer, a creature of instant messaging and web interfaces, cannot imagine pursuing any other path.

Part of this is a matter of personality. But it is also no coincidence that Mr Glocer is young (and, to a lesser degree, an American and a non-journalist, both firsts in Reuters' history). He is among the first from the generation that came of age with the PC to take over a big multinational. Although many older executives have grasped the power of the Internet age, and steered their companies to exploit it, most of them speak geek as a second language, rather than as the native tongue of one who has learnt it when young. This is a subtle distinction, but it can be enough to turn the uncertainty that too often falls back on consultants and endless analysis into the natural confidence to move quickly forward.

"It's difficult to fake this stuff," Mr Glocer says. "You have to use it and to have a genuine understanding." The point, he says, is not for the chief executive to be a programmer, but for him to have tried enough technology at first hand to separate hype from reality. The danger is that the boss might take this too far, losing sight of broader business goals in the whirlwind of technological change. For all Mr Glocer's technological affinity, Reuters retains both a chief information officer and a chief technology officer to look after nerdy stuff. Tomorrow's bosses need to be more tech-wise than today's, but they also need reminding that technophilia is yet another temptation to be kept in check.

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howNottoNameAco

Jan 11th 2001
From The Economist print edition

NAMING a child is one of the most testing things new parents do. So many family sensitivities to consider; so much need to pick something that will be memorable but not mocked. Companies find it even more traumatic, partly because they often hunt for a new name when they are in the throes of a disturbing merger, or when an old name has become devalued.

This week, for example, Glaxo SmithKline unveiled a new corporate identity developed by FutureBrand, a design company that clearly likes the intermediate upper case. It thus joins the illustrious world of PricewaterhouseCoopers and DaimlerChrysler as examples of companies that merge but cannot quite decide which is the underdog and should be consigned to oblivion. Paul Barlow, FutureBrand's creative director, has come up with a new logo built around the initials GSK, which is presumably what people will end up calling the company.

But are initials a way to gloss over an awkward past? British Petroleum, gobbling up Amoco and Arco, managed to avoid becoming BritishAmocoArco. Prudently, it decided that the "British" was a burdensome legacy from the imperial past, and settled for an austere BP. A brief flirtation with ads announcing "Beyond Petroleum" is over: some folk apparently thought that this was the company's moniker.

A name that is widely recognised does not need much meaning. When a telecoms company asked John Williamson of Wolff Olins, a consultancy, what he thought of Microtel as a name for a wireless network, he thought it was terrible and suggested Orange instead. It turned out to be one of the branding triumphs of the past decade. Not many people know that Starbucks was the coffee-drinking first mate of "Moby Dick", says Julie Cottineau, director of naming at Interbrand in New York, but the name is both distinctive and memorable.

Nowadays, companies seem keen on ersatz classical. Britain's Post Office has just chosen Consignia, which sounds vaguely *mafioso*. Alton Wright, Director of Verbal Branding & Naming (being a professional namer, he is keen on the ampersand) at Landor Associates in San Francisco, touts Agilent, the name he developed for a spin-off of HP (as Hewlett-Packard was in prouder days). At least Agilent is pronounceable, as are other ersatz-classicals such as Vivendi, Aventis and Corus. Not so Diageo, product of the Guinness-Grand Met merger ("we hate it when people say Diego," complain the staff); Innogy, formerly Britain's National Power; or Thales, once Thomson-CSF, a French group now inscrutably named after a Greek scientist.

These days, a new name has to be available as a domain name. It also has to squeak through trademark law, and to avoid an undesirable meaning in a foreign language (like GM's Nova, whose name meant "No go" in Spanish). And it has to pass muster with the corporate top brass, who are likely to be deeply conservative. How else to explain why Andersen Consulting should reject the vivid and memorable name of Mind Rocket and settle instead for the meaningless Accenture?

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Enron in India

Generation gaps

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From The Economist print edition

Enron's Maharashtra power project continues to spark controversy

SINCE its conception nearly a decade ago, the Dabhol power project in the Indian state of Maharashtra has generated more problems than power. Dabhol and its main shareholder, Enron Corp, based in Texas, were accused of bribing Indian officials in order to get the project approved, and of tolerating police brutality to get it built, charges Enron says were dismissed by the courts. This week its sole customer, the Maharashtra State Electricity Board (MSEB), came close to default on 1.1 billion rupees ($23m) of bills owed to Dabhol since last October.

Catastrophe was averted on January 9th when the state came up with the money to meet the bill, but the crisis is not over. Dabhol's power will become even more expensive when a second phase of the project goes into operation later this year. It is hard to say which is the bigger worry: the burden on Maharashtra of a power plant that it cannot afford, or the damage that would be done to India's reputation as a destination for foreign investment were the state to default.

Enron's investment in India was supposed to flatter both. India liberalised its economy in 1991 and Enron looked brave for pioneering foreign investment in the country's power sector. But the Dabhol project, on the Malabar coast, caused so much controversy that in subsequent elections it helped to defeat the state government that had approved it.

The World Bank refused to finance it, saying that Maharashtra could not absorb the additional power at the price which Dabhol would charge. Yet in 1996 the new, ostensibly anti-Dabhol government approved a 740 megawatt plant costing $1.1 billion that went into operation in May 1999 ("Phase One"), and a second 1,440-megawatt plant costing $1.9 billion, which is 80% built ("Phase Two"). "India had no experience in negotiating," says a top Indian government official dealing with electricity; "Enron was a savvy negotiator." The process was secret, deepening suspicions.

Phase One supplies champagne power to a customer whose budget does not even extend to beer. As India insisted, its fuel is naphtha, which unexpectedly doubled in price after the agreement was negotiated, driving up the variable component of Dabhol's tariff. MSEB is also obliged to pay a fixed "capacity charge" of 940m rupees a month—covering debt, fixed running costs, and the profits of Enron and other shareholders—even if it takes no electricity from Dabhol. Even when the plant is operating at close to full capacity, its electricity is more expensive than that from other sources available to MSEB, mostly old coal-fired and hydro-electric plants. The state's electricity regulator has ordered MSEB to favour cheaper sources of supply; the resulting drop in Dabhol's output makes each unit ridiculously expensive.

Naphtha prices have again receded, so variable costs should drop soon. But with the tripling of capacity, Dabhol will switch from naphtha to liquefied natural gas. This is a cheaper fuel, but it is bought under a 20-year contract. Dabhol's fixed charge to MSEB will therefore soar. The worried state government has set up a committee to review the project.

MSEB's financial plight is not entirely Dabhol's fault. As in other states, Maharashtra's politicians oblige the electricity board to supply power at below cost to farmers and other favoured consumers. Moreover, MSEB loses a third of the electricity it buys to theft and leakage. The combined annual losses of India's state electricity boards are staggering.

Doubts remain about the wisdom of the Dabhol project, if not the ethics of its promoters (which, Enron insists, met the highest standards). Maharashtra has a power shortage, which it now copes with by cutting off many of its customers for hours every day. But a plant designed to kick in at periods of peak

demand rather than a base-load plant like Dabhol could have dealt with this. If MSEB cannot pay, it will not be the shareholders who suffer but the public in India and abroad: payments are guaranteed by India's state and central governments as well as by agencies in investors' home countries.

Now that MSEB has met its October bill, the tension has subsided—for a time. K. Wade Cline, Enron's managing director in India, says the company will "see if there is room to negotiate" as long as MSEB continues to meet its obligations. If it does not, there is a "big danger" that lenders will stop financing the second phase. There is talk that Enron may even sell its stake in Dabhol altogether.

Reforms could help. A bill pending in parliament would encourage full-fledged trading of electricity, which would allow Dabhol to seek customers besides MSEB (and Enron to move into a business that it is keen to enter). It would also encourage MSEB and its bankrupt counterparts in other states finally to meter and price electricity properly. If that happens, perhaps Dabhol will turn out to be more of a blessing than a curse.

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Power in California

Light on solutions

Jan 11th 2001 | SAN FRANCISCO
From The Economist print edition

California's politicians are not resolving the state's energy crisis

CALIFORNIANS have been enduring the latest in a string of power "emergencies" that have become so routine that they are announced alongside the weather forecast on the evening news. Southern California Edison and Pacific Gas & Electric, the state's two giant power utilities, have been forced to buy power for far more than they are legally allowed to charge their retail customers in recent months, so they are bleeding red ink. At the latest count, they had outstanding debts of over $10 billion. With credit-rating agencies warning that the utilities are within days of bankruptcy, the state's governor, Gray Davis, has been under intense pressure to come up with a solution.

Mr Davis delivered his "state of the state" speech on January 8th; it was mostly devoted to the power crisis. He went on a rampage against the power marketing firms, calling them out-of-state criminals, and he threatened to cut off the state from the regional electricity-trading markets (ignoring the fact that California gets a quarter of its power from outside the state). He also branded deregulation a "dangerous and colossal failure" that had produced an "energy nightmare", and raised the spectre of some sort of state control over power distribution and generation assets.

His speech did not, therefore, do anything to improve the crisis. Creditors were cheered that the governor said explicitly that he would not let the utilities go broke, but they noted that he refused to reveal how exactly that could be avoided. Standard & Poor's, a rating agency, warned that "the governor's message lacked constructive solutions to the utilities' financial crisis."

Undeterred, Mr Davis flew the next day to Washington to plead his case for some sort of a bail-out. At a special emergency summit called by Bill Richardson, the energy secretary, and Larry Summers, the treasury secretary, the governor's officials sat down with the utilities and the main suppliers of power to California in the hope of forging some sort of a compromise. No final deal was reached, but lower-level folk will continue discussions, and the big-wigs will meet again at the weekend to try to finalise a pact.

Any solution has to contain a number of elements. For a start, the utilities need to be given more time to pay the debts that they have accumulated. Some bridging arrangement, whether arranged as a loan from creditors or via the issue of a bond securitising anticipated revenues, will stave off the immediate liquidity crunch and postpone bankruptcy. Then suppliers will probably have to agree to provide power at fixed prices under long-term contracts, rather than entirely through spot markets on which prices fluctuate rapidly.

Next comes the medium-term question of who will pay the utilities' bills. It seems certain that Californian consumers will end up paying some of them, loth though the politicians may be to pass them on through further rate hikes. The beleaguered shareholders of the utilities can also expect to take a further beating. However, a federal bail-out looks unlikely; the present administration has said it may be prepared to buy power at an "attractive fixed rate" from generating companies to help stabilise the market, but the new administration owes California, which voted against Mr Bush, few favours. In any case, it believes that states should have more management of their own affairs. Phil Gramm, a powerful Republican senator from Texas, says he will "vigorously oppose" any efforts to "let California politicians off the hook".

That moves on to the third, longer-term component of any solution: fixing the muddled regulatory morass that passes for "deregulation" in California. James Hoecker, chairman of the Federal Energy Regulatory Commission (FERC), put it bluntly: "As disappointing as it may seem to some, we cannot 'price cap' California out of a supply shortage...and generators should not expect future earnings that dramatically outdistance the industry's historical performance." He added that fixing things will require work "on several fronts over a period of time—in California's case, three to five years."

This is sensible, straight talk that California's irresponsible politicians and regulators would do well to heed. That is because, while Mr Hoecker proved no knight in shining armour for them, he was more sympathetic to some sort of federal role in solving California's crisis than were other commissioners of the FERC. On January 10th, however, Mr Hoecker resigned. It is now crystal clear that only California can get California out of this mess.

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South Korea

Entrepreneurial fresh air

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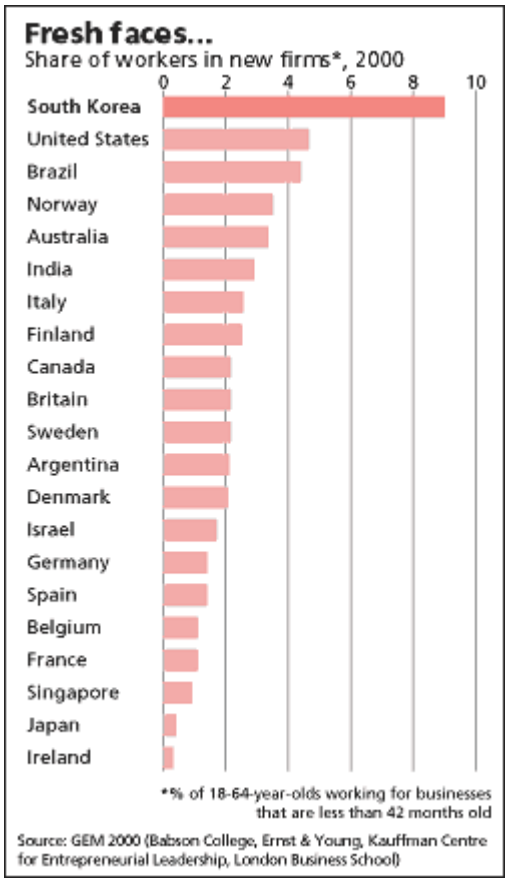
From The Economist print edition

Financial and industrial turmoil is leading to a big shake-up in South Korea's corporate culture

THE past three years of financial crisis have dramatically altered the corporate landscape of South Korea. Dozens of old industrial conglomerates (the *chaebol*) have collapsed under the weight of huge debts, and in their place has emerged a new breed of entrepreneurs. On one measure at least, South Korea can claim to be the most entrepreneurial country in the world. A study published in November 2000 by Global Entrepreneurship Monitor, a research venture organised by the London Business School and America's Babson College, found that 9% of Korean adults were employed by "new" firms (ie, firms that are less than three and a half years old), a figure far higher than in any of the other 20 countries covered by the study (see chart).

Alarmed in recent years by the demise of the *chaebol*, and wary of the country's troubled banks, Korean investors have begun to pour money into business start-ups and firms listed on the Kosdaq, the local version of America's Nasdaq. The market's steep slide after March 2000, when the bubble in technology shares burst, forced many local Internet-based companies to the brink of bankruptcy, and Oh Wan Jin of the Korea Venture Business Association says that about nine-tenths of these firms will eventually have to fold. But fear of failure is no longer the deterrent to starting a new business in South Korea that it once was. That alone is a big step forward in a country in which failed businessmen have traditionally been looked down on.



Meanwhile, dozens of successful young businessmen are bringing about fundamental changes to South Korea's corporate culture. For a start, they are focusing more on profit margins than on revenue growth, the traditional benchmark of a *chaebol*'s success. And they are making business more transparent, in a country where a handful of reigning tycoons have long kept outside scrutiny at bay. For instance, Byun Dae Gyu, the chief executive of Humax, a maker of digital set-top boxes for satellite broadcasting, holds monthly meetings with institutional investors to brief them about the company's management and finances.

AP

...traditional faces

Another striking difference between old and new enterprises is in the way they treat their employees. The new entrepreneurs are trying to motivate workers in new ways. For example, Kim Hyung Soon, chief executive of Locus, a supplier of communications and mobile Internet services, has introduced a performance-based pay scheme for the company's entire workforce. Locus also offers its employees stock options, a radical change for Koreans, who are accustomed to age-based pay scales.

The new ventures are beginning to make South Korea's rigid labour market more flexible. Workers laid off by the *chaebol* have been forced to abandon hopes of lifetime employment, and now they are changing jobs more often. So much so that the big traditional employers are having to fight to retain

them. Many more of these are now offering their employees stock options. There are now 105 companies listed on the Korea stock exchange (including Samsung, Doosan and Kolon) that offer employee stock options. In 1997, there were only two.

The new generation of entrepreneurs is also different in the way that it concentrates on core activities, in contrast to the traditional giants that seemed to suffer from an undue yearning for totally unrelated businesses. It is different too in the way that it is developing its own technology rather than, as in the past, depending on others'. Most of the new firms spend over 20% of their revenues on research and development.

Several companies that have yet to list their shares have home-grown technology with the potential to become a global leader. SoftMagic, a provider of software for desktop publishing, is one example. In February, SoftMagic will launch Project M, a desktop publishing service that Kim Min Soo, the company's founder and a graduate of America's MIT, expects will replace QuarkXPress as the industry standard, much as Quark itself took over from the then market leader PageMaker a dozen years ago.

For all their optimism, however, the new entrepreneurs face one big constraint that also affects older enterprises following their example: a severe shortage of professional managers. Senior managers in old enterprises are used to working to orders from the top, and they lack the innovative ideas required by the new culture. The problem is particularly acute for new enterprises that have been founded by engineers. After a few years, many of these engineers-turned-entrepreneurs want to concentrate on research in order to develop new products. But they find it virtually impossible to recruit a manager who can leave them free to do that.

Recruiting foreign managers can be a solution, but it is expensive. On top of which, foreigners do not always share the same sense of mission that Korean entrepreneurs have—the determination to turn South Korea into an industrial powerhouse capable of overtaking Japan. If they can develop the necessary managerial resources, that may not be just a pipe-dream. The Global Entrepreneurship Monitor study that found South Korea to be so entrepreneurial also found a close correlation between the level of entrepreneurial activity and general economic growth. South Korea has 9% of its workers in young companies, but Japan has only 0.5%. That points to some rapid catching-up to come.

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The curse continues

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Crédit Lyonnais's banking licence in America could be suspended as punishment for breaches of the law there in the 1990s. Jean Peyrelevade, the bank's chairman since 1993, has claimed he knew nothing about these until late 1998. Research by The Economist suggests that his claim is implausible

GIVEN the amount of bad news that has already emanated from Crédit Lyonnais, the last thing it now needs is another scandal. Once France's largest bank, it came close to collapse in the early 1990s after years of reckless lending, fraud and bad management. Successive bail-outs by the state have produced a bill to the French taxpayer estimated at FFr120 billion ($20 billion). In November 1993, the government installed a new management led by Jean Peyrelevade to clean up the bank and restore its fortunes. A privatisation in July 1999 seemed to symbolise the bank's return to respectability.

Ever since his arrival, Mr Peyrelevade has been dealing with the aftermath of Crédit Lyonnais's excesses. One long-running headache is a deal the bank did in 1991 that was hailed at the time as a spectacular financial coup. It involved Executive Life, a Californian insurance company that went bust when its large portfolio of junk bonds collapsed in value. Based on information filed by Crédit Lyonnais, the Federal Reserve, its banking supervisor in America, and California's insurance regulator gave the deal regulatory clearance. In particular, the transaction seemed to comply with strict rules dictating the type of assets that banks could hold.

Years later, however, it emerged that Crédit Lyonnais had filed false information with both regulators. Since early 1999, the Executive Life deal has been under investigation in America. Crédit Lyonnais faces a lawsuit in California for breaching insurance law. The bank also faces a criminal investigation by the Department of Justice, which is trying to establish whether Crédit Lyonnais managers committed fraud. *The Economist* understands that the department, which has declined to comment, is preparing to issue indictments against Crédit Lyonnais and some former managers.

Most worrying for Mr Peyrelevade, however, is a third investigation being conducted by the Federal Reserve. If it finds that the bank's old management breached banking rules deliberately, and that its new managers, including Mr Peyrelevade, learnt of the deception and continued with it, then Crédit Lyonnais could be stripped of its American banking licence. Such a penalty would damage its finances—its corporate-banking operation in America generates a significant portion of the bank's profits—and ruin its already tarnished reputation outside France. It would also be a big blow for the French government, which owned all of Crédit Lyonnais at the time of the Executive Life deal, and still owns 10%.

With so much at stake, the bank's defence has been simple. Mr Peyrelevade has argued that any wrongdoings were committed before his arrival, and that he knew nothing about them until the American investigations began. If the Federal Reserve believes this defence, it is less likely to suspend the bank's licence, but could choose instead to admonish it, to levy a fine, or both.

However, an investigation by *The Economist* casts serious doubts on the credibility of Crédit Lyonnais's defence. We have established that Mr Peyrelevade was sent a detailed briefing paper on the Executive Life case almost as soon as he arrived in 1993. This explained clearly how Crédit Lyonnais was using complicated structures to evade the laws governing its American activities. If he read it, Mr Peyrelevade would have known of the bank's wrongdoings. As chairman and chief executive, he was responsible for reporting them to the Federal Reserve and the Californian authorities.

Executive briefing

The importance of this briefing document cannot be understood without first knowing the details of the ill-fated Executive Life case. When this insurer went bust in 1991, its $6 billion portfolio of junk bonds was trading at around half of its face value. In late 1991 Altus Finance, a subsidiary of Crédit Lyonnais that specialised in high-risk and complex transactions, offered to buy the bonds, a deal that was completed in March 1992.

However, Altus Finance faced a regulatory problem with part of the junk-bond portfolio. Some of the Executive Life bonds were in the process of becoming equity investments, as their issuers were restructuring their over-geared balance sheets and converting bonds into shares. Under American banking rules, which place strict limits on banks' ownership of non-banks, Crédit Lyonnais had to dispose of this part of the portfolio. It was loth to do this because the bonds were a potential goldmine when the junk-bond market recovered. However, the bank was facing a big overall loss in 1992, mainly because of the collapse in value of its huge loan and share portfolios. If, during the 1992 financial year, it could offload the equity-like bonds as the rules required, it would book a profit of hundreds of millions of dollars and reduce its losses to a less embarrassing level.

At this point, François Pinault enters the picture. In the space of a few years, this controversial entrepreneur had risen from regional obscurity to become the owner of one of France's leading retail empires—and also Crédit Lyonnais's largest customer. From the mid- 1980s, the bank backed his deals with a string of loans. By the end of 1992, Mr Pinault's group was struggling to manage debts that had ballooned to around FFr21 billion, most of it lent by Crédit Lyonnais.

In November 1992, just weeks before the end of Crédit Lyonnais's financial year, Jean-Yves Haberer, then the bank's chairman, came up with an ingenious idea: Mr Pinault would buy the junk bonds from Altus Finance, and they would be transferred into Artémis, a vehicle controlled by Mr Pinault in which Crédit Lyonnais would own a 24.5% stake. In a flurry of activity, this deal was concluded right on the year-end deadline.

The problem was that Mr Pinault had no cash. To finance the transaction, he received a $2 billion line of credit and a FFr1.7 billion cash sum—from none other than Crédit Lyonnais. This amounted to the entire purchase price. In another twist, the huge loan was secured largely on the junk bonds it would buy. In other words, Mr Pinault was taking on almost no risk.

Once concluded, the Artémis deal looked a double winner. Crédit Lyonnais achieved the financial boost it wanted and overcame regulators' concerns. Mr Pinault acquired an asset that subsequently produced lots of much-needed cash. However, there was even more to the deal.

Front men

Artémis also agreed to buy the remnants of the Executive Life insurance company. This aspect of the deal was necessary because Altus Finance needed to unwind an elaborate scheme it had concocted in 1991. The Californian authorities had insisted that whoever bought the junk bonds also had to find a partner capable of rescuing and operating the insurance company. However, there were two reasons why Altus Finance could not itself buy Executive Life. First, American laws then prohibited banks and their subsidiaries from owning insurance companies. Second, Californian law barred state-owned entities (including Crédit Lyonnais) from any involvement in its insurance industry.

Executive life story

Apr 91	Executive Life placed under protection of Californian Insurance Commission
Aug-Nov 91	Fronting scheme put together by Altus Finance for consortium of investors to buy Executive Life's insurance operation
Dec 91	Altus Finance selected to buy Executive Life's junk-bond portfolio, and the consortium to buy the insurance operation
Mar 92	Sale of junk-bond portfolio completed
Dec 92	Part of junk-bond portfolio sold to Artémis, and Artémis acquired option to buy Executive Life
Sep 93	Consortium of investors took over Executive Life
Nov 93	Jean Peyrelevade appointed chairman of Crédit Lyonnais
Dec 93	Briefing paper sent to Mr Peyrelevade on the Executive Life deal
Jun 94-Aug 95	Artémis acquired 67% of Executive Life in three tranches
Mid-98	Whistleblower revealed existence of fronting agreements to Californian Insurance Commission
Jan 99	Start of Federal Reserve Bank and Department of Justice inquiries
Feb 99	Californian Insurance Commission filed lawsuit against Crédit Lyonnais and others
Jul 99	Privatisation of Crédit Lyonnais

Source: The Economist

So Altus designed a fraudulent scheme to conceal the fact that, in clear breach of the law, it would be the true owner of Executive Life (which later became known as Aurora). Altus assembled a consortium of European investors, all trusted clients of Crédit Lyonnais. They agreed that they would really be acting on Altus's behalf. In return for large commissions and, in some cases, cash from Crédit Lyonnais to buy into Executive Life, these investors convinced the Californian authorities that they were genuine buyers, operating at arm's length from Altus. Meanwhile, Altus reassured American banking authorities that the deal was legitimate.

The principal member of the consortium was MAAF, a large French mutual insurer that took a 23.6% stake in Executive Life. Another member was Fimalac, a firm owned by Marc Ladreit de Lacharrière, a French businessman who was then a director of Crédit Lyonnais. Their agreement to front for the bank was highly unusual: French banks routinely front for their customers, but the other way round is almost unheard of.

After regulatory scrutiny and several court challenges, the rescue package for Executive Life was approved in August 1993. The following month the insurer was duly taken over. The consortium injected $100m of capital into Executive Life's new holding company. So cavalier was Crédit Lyonnais that one of its own banking arms even paid $42m towards the deal. A further $33m came from SunAmerica, an American insurer that joined the deal but was not part of the fronting arrangements.

No sooner had the consortium bought Executive Life than Artémis, Mr Pinault's company, which was by then the owner of the junk bonds, contacted Crédit Lyonnais. According to an internal bank document, Artémis requested fresh loans because, it said, it was now ready to buy Executive Life as agreed in December 1992. (By August 1995, Artémis had indeed acquired the 67% of the insurer that had been held by the consortium, with SunAmerica retaining the remainder.) The proposal for Artémis to buy Executive Life is also explicitly described in the briefing document received by Mr Peyrelevade's office in December 1993.

This document included detailed memoranda on the transaction, prepared ostensibly for the new boss of Altus, Claude-Eric Paquin. Mr Paquin had been at Altus since 1992, working with its previous boss, Jean-François Hénin, who was the main architect of the Executive Life deal.

The memoranda spelled out clearly the fronting scheme. For instance, one document stated: "Because of US regulatory requirements, neither Crédit Lyonnais nor ourselves [Altus Finance] can be the legal owner of this shareholding [in Executive Life]. As a result, the shares are held/will be held by MAAF (25%), A. Mallart (17%), Fimalac (15%) and Omnium de Genève (10%). We have a commitment to buy back the shares and the right to nominate others to hold them."

What happened next showed for whom the documents had really been prepared. Almost immediately, the 17-page package was faxed to Mr Peyrelevade. A former manager says that Mr Peyrelevade had

asked each of the bank's units for a briefing on all matters of importance.

Paper trail

Less than a month into his new job, Mr Peyrelevade doubtless had an in-tray that was overflowing with evidence of past scandals, many of which had originated years earlier. But the ink was still wet on this one. And although the deal was hatched on the watch of Mr Haberer, his predecessor, the document makes clear that it would continue to unfold while Mr Peyrelevade was in charge. Mr Peyrelevade was no naif when it came to the world of banking. He had previously been boss of Banque Indosuez, an international French bank, and had worked at Crédit Lyonnais earlier in his career.

Crédit Lyonnais has refused to answer detailed questions about the document. However, it is possible to reconstruct part of what happened. First, the decision to fax the document conveyed a sense of urgency, but also ensured there was a record that the pages were both sent and received.

The document was then read by one Dominique Bazy. This senior manager had been a close colleague of Mr Peyrelevade at Union des Assurances de Paris, a state-owned insurance company where the two men worked immediately before they moved to Crédit Lyonnais in 1993. Mr Bazy was hand-picked to accompany his patron to the troubled bank. A former Crédit Lyonnais manager says that their relationship was one of "high confidence, provided Mr Bazy always reported back". Mr Bazy was, in effect, a joint number two at Crédit Lyonnais. Among his responsibilities, he chaired the supervisory board of Altus Finance.

Mr Bazy ordered two copies of the document to be made. One was sent to François Gille, another joint number two, who had been closely involved in the deal to sell the junk-bond portfolio to Mr Pinault. The other copy was for Loïc Deraison, who had overall charge of the bank's corporate-finance relationship with Mr Pinault.

Messrs Bazy and Gille have declined to comment on whether they discussed the document's contents with Mr Peyrelevade. There is no doubt, however, that after December 10th 1993, Mr Bazy should have been fully aware that Altus Finance was in breach of American law. It is hard to believe that he did not assiduously follow up this information, or that he would not have thought it sufficiently important to inform his boss. Mr Bazy left Crédit Lyonnais in June 1995. He recently became head of corporate finance at UBS Warburg in Paris.

Source material

Logically, however, the assertion that Mr Bazy never informed his boss about Executive Life must be the basis of Mr Peyrelevade's explanation for his bank's failure to alert American authorities to serious breaches of regulations. Mr Peyrelevade refuses to say whether he was in his office on December 10th when the briefing document arrived, and claims that thereafter he had no knowledge of its contents until after December 1998. *The Economist* asked Crédit Lyonnais to account for the various copies of the document and to confirm that all of these have been disclosed to American bank regulators. Neither Crédit Lyonnais nor the Federal Reserve would comment.

As well as its revelation of the fronting agreements, the document also included several pages of important financial information and background commentary on Artémis. Despite claiming not to have read the document, Mr Peyrelevade took a close interest in Crédit Lyonnais's relationship with Mr Pinault. In June 1994, for example, he invited Mr Pinault to join the bank's board. That reciprocated his own role in the private company through which Mr Pinault controls his empire.

After Mr Pinault left Crédit Lyonnais's board, Patricia Barbizet, chief executive of Artémis, joined. Ms Barbizet had been principal negotiator for Mr Pinault in December 1992 when Artémis agreed to buy Executive Life. When she left the Crédit Lyonnais board in 1999, her place was taken by the chairman of the supervisory board of Pinault Printemps Redoute, a large retail group controlled by Artémis.

The high-level silence within Crédit Lyonnais concerning Executive Life might have meant that the affair stayed secret forever. Unfortunately for the bank—and for Mr Peyrelevade—in mid-1998 somebody whose identity remains a mystery approached lawyers acting for the California Insurance Commission. To back up a story of wrongdoing by Crédit Lyonnais, this person produced copies of some of the fronting

contracts between Altus Finance and the consortium, notably the agreement with MAAF. This triggered the lawsuit in California that has yet to come to court.

Shortly before the lawsuit was announced in February 1999, Crédit Lyonnais finally told American banking regulators that it had new information concerning the purchase of Executive Life. The timing could not have been worse for Mr Peyrelevade. After years of battling to turn the bank round, he had just won agreement from the government that it would be privatised in a stockmarket flotation.

In order to avoid implicating the current management, Crédit Lyonnais had to pin nearly all of the blame for the Executive Life affair on senior managers who had left the bank in the intervening years. Among these were Mr Hénin, former boss of Altus Finance, and Mr Gille. In an apparent spirit of co-operation with the American regulators, Crédit Lyonnais also set up an internal inquiry to establish the full facts of the affair. Yet *The Economist* has established that several former senior managers with detailed knowledge of the affair were not interviewed by the bank.

The results of this probe are described in Crédit Lyonnais's flotation prospectus, approved by the French stock exchange on May 12th 1999. According to this official document, the blame for the Executive Life affair lay with former managers of Altus and the group. The document stated that only one current manager had become aware of the facts after the event, and that no other miscreants were expected to be identified.

The implication of the prospectus is that Crédit Lyonnais was content to offer a single scapegoat for its wrongdoings. This individual was not named in the prospectus. However, a court case in Paris in October last year revealed him to be Denis Lion, a manager who had been temporarily demoted from his position in the bank's internal audit department in May 1999. Mr Lion, who has declined to comment to *The Economist*, had filed a lawsuit against Crédit Lyonnais alleging that the bank had harassed him and breached his human rights.

It emerged in the court case that the American lawyers leading the presentation of Crédit Lyonnais's defence to America's banking regulators had first interviewed Mr Lion only on May 10th 1999. A mere two days later, the 192-page prospectus was approved by the stock exchange. This suggests that Mr Lion had been deliberately singled out as a scapegoat and given no time to defend himself.

Mr Peyrelevade certainly took a close personal interest in Mr Lion's fate. According to the bank's French lawyers, the chairman himself wrote a letter in July 1999 explaining to Mr Lion why he had been demoted from his job. The only reason the bank advanced was that it was acting on the advice of the Federal Reserve. Mr Lion's repeated requests to testify to the American authorities had been ignored by Crédit Lyonnais.

Taking the blame

Put these various strands together, and an unflattering picture of Crédit Lyonnais and its senior management emerges. The bank's strategy of blaming one current employee for the Executive Life affair is scarcely credible. It looks suspiciously like a cover-up for other senior managers who had many opportunities to learn about the deal.

There is no way of knowing whether the Department of Justice and bank regulators in America will accept the assertion that Mr Peyrelevade had no knowledge of anything untoward in connection with Executive Life. But it is difficult to avoid the damning conclusion that he did know, or should have known, the full details of the affair. Either way, his position looks untenable.

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The extraordinary edginess of crowds

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Where the Achilles heels may be hidden in America's financial system

SINCE the Federal Reserve cut interest rates by half a point on January 3rd, speculation has kept on swirling around the idea that its chairman, Alan Greenspan, has uncovered something truly nasty in the financial system. What could it be?

Hulton Getty

With the American economy slowing, a cut or two in interest rates was admittedly expected by the spring. But two or three unusual features of last week's cut fired the imagination of New York's conspiracy theorists. The cut took place after a conference call that was hastily convened among members of the Federal Reserve's open-market committee, not at a scheduled meeting. The call came only two weeks after the previous regular meeting, on December 19th, when the Fed decided to leave rates unchanged and merely abandoned its "bias towards tightening". The cut was larger than the usual quarter-point to which the Fed has accustomed financial markets. Perhaps most curious of all, instead of waiting until the close of the trading day to make an announcement, the usual approach, the Fed spoke bang in the middle of it.

Many on Wall Street have therefore concluded that something panicked the usually unflappable chairman. Had he seen unpublished data suggesting that the American economy is in a far worse condition than seemed likely just two weeks earlier? A growing band of Wall Street's economists think so. On January 8th Stephen Roach at Morgan Stanley Dean Witter became the first of Wall Street's high priesthood of economists to assert that the American economy is already in recession. Yet confirmation will not come for several months. So far, evidence of recession is mostly anecdotal; the trends in most published economic data still suggest that the economy is heading for a softish landing. There is little new to suggest that Mr Greenspan could not have waited until the next scheduled meeting, on January 31st, to cut rates in a less dramatic way.

America's stockmarkets continued to fall in the final days of 2000, the first year since 1990 that the blue-chip Dow Jones Industrial Average finished lower than it started, and the worst-ever year for the Nasdaq. The first trading day of this year was awful and, according to *Liquidity Trim Tabs*, a newsletter, it saw an unprecedented $13.1 billion net outflow from equity mutual funds, suggesting perhaps that the great American investor, an individual of supposedly boundless stoicism, was at last losing faith in shares. Did Mr Greenspan cut rates to slow the outflows? Possibly, though in the past he has denied propping up stockmarkets on the grounds that managing share prices is not the job of a central banker.

This rule might be broken if further falls in share prices were to endanger the health of the financial system: Fed responsibility certainly lies there. For now, the direct exposure to the stockmarket of financial firms regulated by the Fed is limited. Not least, this is because capital-adequacy requirements force financial institutions to hold capital in reserve, to cover against possible losses on risky assets such as shares. There is some concern about those banks that have lent money to the bosses of Internet firms and the like, secured against their shares in those firms. Many of these shares are now worthless. Yet the experience is unlikely to be life-threatening for the banks.

Derivative delusions

Far harder to quantify, and potentially more worrying, is the financial sector's exposure to the equity markets (or other financial markets) through the use of derivatives. On January 5th rumours swept Wall Street that derivatives losses had brought Bank of America low, and that the interest-rate cut had been

intended to keep this bank alive. Trading in Bank of America's shares was temporarily suspended, and the bank, one of the country's biggest, issued a statement crafted to reassure. Bank of America has a reputation for playing semantic games. During the 1998 financial crisis it denied hedge-fund losses, and later justified this apparent economy with the truth on the grounds that the speculative vehicle with which it indeed lost lots was not, strictly speaking, a hedge fund. So this time round, the bank's denials have not been taken at full face value.

The derivatives markets are certainly showing signs of stress; and the market for credit derivatives, which has grown rapidly in the past couple of years, is exhibiting stress to an extreme degree. Which institutions are bearing the bulk of the risk in these contracts is not clear to the public, and it may not be clear even to the Fed. It is possible that banks have used financial engineering to take on risks that do not show on their balance sheets, which mostly look healthy.

Credit quality has deteriorated rapidly in recent months, both for marketable debt and for bank loans. And it is expected to get a lot worse. Many banks, including Bank of America, which bid aggressively for loans, have warned investors of big losses on bad loans. The market for high-yield ("junk") corporate debt ground to a halt in December. Several well-known investment-grade companies, notably Xerox, have since seen their debt sink swiftly into the junk category, scaring investors who thought that "investment grade" meant "low risk". The risk of California's electricity utilities going bankrupt has added to the market's jitters.

Seemingly the safest of all securitised corporate lending is the market for commercial paper. But even that market has suffered an attack of investor nerves. Here perhaps lies the likeliest explanation for Mr Greenspan's sudden rate cut. Charles Peabody, an analyst at Mitchell Securities, predicted on December 28th that rates would be cut during the first week of January. His reasoning was that nearly $600 billion of commercial paper would need to be refinanced during the first three weeks of January: a vast sum in such a short period. The rate cut may have been intended to help reduce the cost of this borrowing, and to ensure that less-healthy firms—already squeezed out of markets for longer-term corporate debt—were not shut out of short-term paper and, crucially, forced to turn to the banking sector.

One of the differences between now and the recession of 1990-91 is, on the face of it, that banks are much less exposed to credit risk, thanks to the vast market in corporate debt. But on closer inspection, Mr Peabody argues, the situation may be less healthy. In the past three years, banks have been aggressive competitors to win mandates to manage firms' cash and to advise them on corporate finance. One of the banks' most alluring offers to companies that give them such business is to furnish them with back-up lines of credit.

These credit lines attracted attention when Xerox drew down $3 billion from a group of banks even as its troubles mounted late last year. At the end of September, American banks had a record amount of unused loan commitments: $4.3 trillion, compared with total loans of $3.8 trillion. The danger, Mr Peabody says, is that a process of adverse selection is under way. Financially healthy firms continue to borrow in the markets, while those shut out by the markets—including telecoms companies showing signs of stress—draw down loans promised by banks. These, then, become ever more exposed to the sickliest parts of the economy.

Mr Greenspan is famously hard to interpret, and the motivation for his rate cut will no doubt remain unclear for now. What is evident is that the cut reassured the financial markets a bit more than it scared them. Since the cut, according to Martin Fridson of Merrill Lynch, the corporate-bond market has reopened for better-quality borrowers, though it is not yet clear whether money is available for those who most need it. Yield spreads of junk bonds over Treasuries have narrowed a touch, though they remain wide.

The rate cut may also have created an environment in which troubled firms can undertake the asset sales that are needed to strengthen their balance sheets. This week, Xerox revealed that it had secured a loan from GE Capital while negotiating the sale of a leasing business to it. On January 10th FleetBoston Financial announced the sale of a non-performing loan portfolio to Patriarch Partners, a private-equity firm, for $1 billion. That is a measure both of the severity of the problems that the banks face, and of the possibility of salvation. All the same, the usually predictive Fed-funds futures market is pointing to another interest-rate cut of half a percentage point at the Fed meeting at the end of this month. Whatever danger scared Mr Greenspan, the markets think it is not past yet.

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A currency fix?

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AP

In praise of earth-moving equipment

AT FIRST glance it makes no sense. Against a background of a faltering economy and stockmarket, there have been odd stirrings among a shunned group of shares. Heavy industrial names such as John Deere, Caterpillar, Terex and Briggs & Stratton have all seen their shares rise by over 35% since October, even though a weakening business climate hardly suggests a flood of new orders for earth-moving equipment, cranes and engines. Odder still are the sharp gains by shares in car-parts manufacturers such as Dana, Eaton and, perhaps most remarkable, Delphi, a former subsidiary of its largest customer, embattled General Motors.

What these companies have in common is sensitivity to the dollar. They either export heavily, or they face tough competition from products manufactured abroad. Their rising share prices began around the time of the presidential election, when the dollar also peaked against the euro. The extent of the bull market in these shares suggests that Wall Street thinks the dollar's slide has some way to go.

Politics has something to do with this. The Clinton administration had a most unDemocratic liking for a strong dollar. The incoming Republican administration may favour change. For his choice as treasury secretary, President-elect George Bush did not look to Wall Street, which likes its money strong, nor to academia, which frowns when the currency is debauched. Rather, Mr Bush picked Paul O'Neill of Alcoa (shares up by 40% since late October), an aluminium producer that would benefit from a cheaper dollar. Another company that would benefit is Halliburton, an oil-services firm formerly chaired by the vice-president-elect, Dick Cheney. Some 70% of its revenues come from abroad. Andrew Card, the incoming White House chief-of-staff, negotiated with Japan on behalf of the car industry, which would prosper more if the yen, like the euro, were to rally. (Tokyo: are you listening?)

Mr Bush proposes a broad-based tax cut, which, if passed, might engender a further boost in domestic consumption that could widen America's trade deficit, raising more questions about the sustainability of a strong dollar. Further interest-rate cuts by the Federal Reserve in the face of a weakening economy could also remove props from under the dollar. The incoming president was pleased by the Fed's action.

A weaker dollar is not necessarily such a bad idea, but it could complicate the Fed's task of coping with a slowing economy. A widespread market perception that the administration wants a lower dollar could certainly be damaging. America's huge (and still growing) current-account deficit has been financed in large measure by foreign portfolio inflows. Any outflows of foreign capital, encouraged by the risk that the currency will be lower tomorrow than it is today, might lead to a fall in the dollar of such precipitousness that the Fed is constrained in cutting interest rates—shades of the late 1970s. Even though Caterpillar and Deere might like a cheaper dollar, other parts of the economy may resent it.

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Russian debt

Promises, promises

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BLUSTER, plead poverty, blur the issue and add a dash of brinkmanship. That, to judge by the past few years, is Russia's way of dealing with foreign creditors. And it usually works. The present wrangle, over $48 billion of mostly Soviet-era debt owed to western governments, is now at the brinkmanship stage.

Most of the debt is owed to Germany, whose chancellor, Gerhard Schröder, spent Orthodox Christmas on January 7th with Russia's president, Vladimir Putin, and expressed concern about Russian intentions to repay. For reassurance, Mr Putin said Russia would pay all its debts. He then neatly blurred the promise by omitting to say exactly when. In a similar vein his prime minister, Mikhail Kasyanov, said that Russia would certainly pay back some of the debts, but did not say which ones. He noted, quite truthfully, that about $3 billion of repayments due this year are not provided for in the budget.

That is because Russia had expected a rescheduling by now. Yet under the rules of the Paris Club of creditor countries, negotiations may start only after the debtor country has made a deal with the International Monetary Fund. That failed to happen last year, because the Fund was unconvinced by Russia's reform efforts. Even if a new IMF mission this month makes progress, no new programme is likely before April.

Even then, rescheduling may prove tricky. In the mid-1990s, Russia could more convincingly plead poverty. Now high oil prices have left the country awash with cash. The trade surplus last year was $60 billion, although nearly half of that seems to have left the country again as capital flight.

There is room for manoeuvre over one bit of Russia's bilateral debt to Germany: communist-era "transferable roubles" owed by the Soviet Union to the former East Germany, said to be worth $6 billion. Germany is waiting for details of a debt-equity swap that Russia proposed last month. A senior German official insists that such swaps cannot be arranged for Paris Club debts. As it is, Russia's debt has been rescheduled once already. To do it again would be justified only in the direst straits.

There are other Russian wheezes. There are demands for a write-off, as well as for Russia's debts to the West to be offset by notional loans made long ago to Soviet satellite states such as Vietnam, or by the energy debts accumulated more recently by nearby countries such as Ukraine. Although none of these schemes is likely to come to anything, they all help to distract attention from the central point: Russia agreed to take on the Soviet Union's liabilities in return for acquiring its assets. Besides, Russia now has plenty of money, if it only chooses to use it.

The next few months will probably see a lot of posturing, followed by a fudge. The Paris Club this week sent a cross letter, saying that Russia must pay, promptly and in full. Yet there are few sanctions, even in theory, in the case of government-to-government debt defaults. And in practice, western governments have always blinked first when Russia has threatened to commit financial suicide. This knowledge greatly strengthens the hand of wily Mr Kasyanov, who has built his career on helping Russia dodge its debts.

The immediate problem is posed by the payments due in the current quarter. Russia says it will repay $10.3m (out of $3.2 billion in Paris-Club principal and interest due this year, see table below). If the Russian government wanted to pay more, it could certainly find the money. It has a budget surplus, after all.

Might pay, might not

Russia's expected debt repayments, $bn

	2001	2002	2003	2004	2005
IMF	2.0	3.3	3.1	1.5	1.3
Eurobonds*	3.5	2.7	4.3	3.7	6.1
Official creditors	2.3	2.0	1.4	0.7	0.5
Paris	3.2	3.4	1.5	1.5	3.5
Other	2.8	3.0	8.4	5.1	3.1
Total	**13.8**	**14.4**	**18.7**	**12.5**	**14.5**

Source: Troika Dialog *Includes payments on restructured debt to the London Club

Private holders of Russian debt are watching with interest. Some hope that less money for foreign governments will mean more for them. Others find rescheduling an alarmingly ingrained habit. If Russia behaves like this when it is solvent, how will it act at a time of true hardship?

The bigger, and unanswered, question that ought to be of interest to taxpayers in both Russia and the West is what actually happened to the money that was lent to the Soviet Union and Russia? In all, it amounted to more than $150 billion. In theory, it all went to pay for food imports and industrial modernisation, and to prop up public finances. But there is amazingly little to show for the huge sums involved. "It was stolen," says one experienced Moscow investment banker. "Stolen by the same people who have been stealing money ever since."

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Japan's economy

The air goes out

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What little momentum the Japanese economic recovery had mustered now seems to be dissipating

IF THIS is recovery, spare us recession. All winter, the share prices of Japanese companies have been sliding, something that not even last week's interest-rate cut in America could halt. After a further downward lurch this week, the Nikkei average of leading shares is now 29% lower than a year ago, and the yen has followed it down. On January 10th the yen fell through 117 to the dollar, its lowest in a year-and-a-half. Bond yields are also falling, in the expectation that deflation will persist well into the future.

Bankruptcies also show an alarming increase, which raises more concerns about Japan's fragile banks. Exports are lower, household spending is weakening and businesses show signs of losing faith in their investment plans. Only five months after the Bank of Japan raised interest rates for the first time in ten years, high-street prices are falling faster than ever. After settling into the idea that its economy might be growing again, Japan is once more entertaining thoughts of recession.

That prospect seems scary, because this time round there are few quick fixes to hand. As the government has piled on more debt, public opinion has hardened against spending more on public works to bail out the economy. Even rural voters, the traditional beneficiaries of politicians' largesse, are unimpressed: recent local elections have returned politicians pledging to cut spending and to clean up public finances. Nor is a quick monetary fix available. The Bank of Japan will not want to reverse last summer's rate rise in a hurry, for fear that its remaining credibility will be shot. In any case, short-term rates are not far above zero. Bank officials remain opposed to loosening monetary policy by printing money.

Recession invites a return to financial crisis at a moment when there is no guarantee of more public money to bail out the banks. The Liberal Democratic Party (LDP), which heads the coalition government, looks crippled and loses popularity by the day. Conceivably, party elders may fail to summon the courage to oversee another bail-out of their banking friends, who remain unchastised for their excesses in the 1980s and 1990s. In troubled industries such as property, construction and retailing, giant bankruptcies are just around the corner, with nasty consequences for the banks.

America's slowing economy, by itself, may not matter that much. Exports are equivalent to merely one-tenth of GDP, making Japan less vulnerable to shocks from abroad than are its Asian neighbours. What rattles the markets is how slumping exports might combine with weaknesses elsewhere in the economy to throw the lone engine of domestic growth, business investment, into reverse. That investment has been driven by corporate restructurings, which have sent profits sharply higher, making more money available for fresh investment. The virtuous circle promised, eventually, to tighten the jobs market, to boost wages and to restore some lustre to household spending. Now, however, new statistics foreshadow a surprising slowdown. Several factors may be at work. Job and wage cuts boost profits, but they also dampen consumption, as businesses claw back a bigger share of national income. If firms reckon that household spending is not going to rise by much, they will not want to invest.

After the giant public-works budgets of the mid- and late 1990s, public spending continues to shrink, albeit slowly, pushing down construction-related spending. At this point in the cycle, the banks ought to

be taking more risks. But Japan's distressed banks still seem to be applying a mild brake on business spending: central-bank surveys suggest that most small businessmen find their bankers unusually tight-fisted. And Peter Morgan at HSBC in Tokyo argues that the stockmarket's fall last year has cut off the only other way of financing new investments, especially among the high-tech, new-economy companies that have led the business recovery so far.

The undertow to all this is deflation. Cheaper prices tomorrow harm consumption. Companies' profitability is thrown into question. And the real burden of debt rises everywhere. Last summer deflation seemed to be easing; wholesale prices had begun at last to rise. In the past few months, though, both wholesale and retail prices have slid, at least for domestic sales. By the central bank's reckoning, official figures understate deflation by up to one percentage point, which suggests that Japan is suffering a persistent consumer-price deflation of perhaps 1-2%.

These price falls lead some economists, such as Jeffrey Young of Nikko Salomon Smith Barney, to wonder whether the economy really is any healthier, despite recent gains in real GDP. In a heavily indebted economy like Japan's, the better gauge might be nominal GDP. Debts are always nominal, in the sense that companies must pay back what they borrow. And the ability of firms to service their loans rises only with nominal increases in profit, and hence in nominal GDP. Only twice in the past nine quarters has Japan's nominal GDP growth risen above zero (see chart).

It is not all dire. A falling yen should help a bit, though domestic industries such as construction, retailing and property will not benefit. If America's interest-rate cut wards off recession, worries in Japan should ease. On the evidence so far, Mr Morgan judges that output in Japan will level off this year, rather than shrink. But the economy looks more vulnerable than ever to a shock from America or from elsewhere in Asia; from a big, unexpected bankruptcy; or from its own weakly capitalised banks. International rules allow the banks to count unrealised stockmarket gains as capital, but the gains are increasingly being undermined by falling share prices.

All of which makes the case for prompt action, especially to fight falling prices. The central bank has not shut its eyes entirely to the worsening news. In its monthly reports, for instance, it has dropped its insistence that the threat of deflation has receded. In recent speeches, Masaru Hayami, the governor, has even said that weak demand is contributing to falling prices—an admission that sits oddly with his decision to raise rates last summer. Nor, though, does the Bank of Japan seem in a rush to act. The risks plead for something bold, for the bottom could still be an awfully long way down.

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Our quarterly portfolio poll

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CAUTION seems the watchword among the institutional investors surveyed in our latest portfolio poll. The allocation of money between equities, bonds and cash has, on average, remained at the same levels as it did during the third quarter. While Lehman Brothers and Commerz International have increased their overall equity allocations, Daiwa has increased its bond allocation. But given the slowdown in the American economy, it is the reaction of our investors to American equity holdings that is worthy of note.

Fourth quarter 2000

▼▲ A change of 5% points or more on last quarter ▼▲ A change of less than 5% points on last quarter

	Holdings by instrument, %			Equity holdings by area, %								Bond holdings by currency, %				
	Equities	Bonds	Cash	United States	Other Americas	Britain	Germany	France	Other Europe	Japan	Other Asia	Dollar	Yen	Sterling	Euro-zone	Others
Robeco Group	50	50	0	53	3	10 ▲	4	6 ▲	14 ▲	7 ▼	3 ▼	33 ▲	15 ▼	5 ▲	45 ▲	2 ▼
Julius Baer PB	54	39	7†	60	0	4 ▲	5	3	11 ▼	12	5	77 ▼	0	0	15 ▲	8 ▲
Commerz Int. CM	53 ▲	47 ▼	0	49 ▲	0	7 ▲	6	4	20	12 ▼	2 ▼	30	28 ▲	3 ▼	37 ▲	2 ▼
Credit Suisse PB	43	45	12‡	51 ▲	0	9 ▲	7	5	9 ▼	14 ▲	5	88	0	0	12	0
Lehman Brothers	60 ▲	35 ▼	5	45 ▼	2 ▲	10 ▲	11 ▲	10 ▲	11 ▼	9 ▼	2	40 ▲	12	6 ▲	37 ▼	5 ▲
Standard Life	60	40	0	52 ▼	1	11 ▲	5	6	13 ▲	10 ▼	2 ▲	28 ▼	25 ▼	4 ▼	42 ▲	1 ▼
Daiwa	50 ▼	45 ▲	5	39 ▼	2 ▲	9 ▲	7 ▼	9	16 ▲	14 ▼	4	35 ▲	18 ▼	6 ▲	37 ▼	4 ▼
Average	53	43	4	50 ▼	1	9 ▲	6	6 ▲	13 ▼	11 ▼	3	47 ▲	14 ▼	3	32 ▲	3 ▼
Neutral*				51 ▼	2 ▼	10 ▲	4	6 ▲	14 ▲	11 ▼	2 ▼	26 ▼	26 ▼	5 ▼	36 ▲	7

*Morgan Stanley Capital International (developed) world equity index; Salomon Brothers world government-bond index
†Of which 3% invested in non-traditional funds ‡Of which 7% invested in alternative investments

While three of them, including Lehman Brothers, take a dim view of the prospects for American shares, the other four have either marginally increased their allocations, or have maintained them at the same levels as in the previous quarter. Lehman Brothers seems to have decided that the prospect for German shares is better than it is for American ones. Its allocation for American equities dropped by seven percentage points, to 45% of its equity holdings, while its German share portfolio increased by six percentage points, to 11%. Lehman's share allocation to America has dropped, even as its overall equity holdings have increased.

Daiwa and Standard Life are the other two that have cut back on American equities. But Credit Suisse continues to be a cheerleader for American shares. Following its ten percentage-point increase in the third quarter, the Swiss firm increased its exposure to American equities once again in the fourth quarter. Commerz International appears to share Credit Suisse's bullish outlook; its American equity holdings have increased by four percentage points, to 49%. Julius Baer is extremely bullish on American equities, with 60% of its equity funds parked there. But the average American equity holdings among our institutional investors dropped by a percentage point in the fourth quarter.

British equities seem to have become attractive—all our investors have increased their allocations. Credit Suisse, which in the third quarter cut its investment in British shares, appears to have changed its mind. It has increased its allocation by four percentage points, taking the total to 9%. On the other hand, Japanese shares have been given the thumbs-down: all our investors save Julius Baer (unchanged) and Credit Suisse (slightly up) have moved funds out of Japanese equities.

It is a relatively similar story for Japanese bonds, where everybody apart from Commerz International has either dropped their yen-denominated bond holdings, or kept them unchanged. Robeco Group seems decidedly bearish, for it has sharply cut its allocation, from 24% to 15%. Lehman Brothers appears to have got the timing right, by raising its allocation of dollar-denominated bonds in the fourth quarter. Its increase was followed by the Fed interest-rate cut on January 3rd. Will Lehman's bearish timing prove right for American shares, too?

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On the drip

Jan 11th 2001 | BUENOS AIRES
From The Economist print edition

THE shops in Buenos Aires's most chi-chi avenues are offering discounts, and have been doing so since well before Christmas. The deals offer an added promise for even the least expensive items: that payments can be spread out or deferred over three, six and even ten months. The International Monetary Fund is trying hard to rescue Argentina's stagnating economy. But this boosting of liquidity at the street level could help retailers and consumers during tough times.

Payment plans are not new in South America or anywhere else. But an offer of a $36 blouse, to be paid for in three instalments of $12? That's a novelty. Even the most prestigious shops are offering extended payments, on everything from hats to shoes. For an evening dress, payments stretch to ten months, interest-free.

Lowering the price thresholds for which instalment plans are available, and extending their length, may make sense in a recession. When incomes are lower, mid-priced goods begin to look dear. Consumers can justify buying one-sixth of a bottle of new perfume each month, but maybe not a whole bottle in one go. Getting rid of the stark choice—bottle or no bottle—helps retailers get more money for bottles or, rather, for more fractions of them.

Yet these small but positive steps go only so far. In the countryside farmers, who have suffered 30 months of recession and whose drought appears only now to be ending, are not exactly lining up to buy perfume. And to satisfy the curiosity of those at the top of the income distribution: no, the luxury-car dealerships on Avenida del Libertador are offering no earth-shattering deals.

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About sponsorship

Who wants to be a genius?

Jan 11th 2001
From The Economist print edition

Psychologists are divided over whether genius is innate or acquired. Nobody has yet been smart enough to figure it out

THOMAS EDISON gave his famous formula for genius as 1% inspiration and 99% perspiration. Modern-day students of geniuses and prodigies, though, argue over the relative contributions of more tangible factors—of genetics, of physiology, of hours spent in training. Most believe that geniuses have special genes. Almost nobody takes the opposite stance: that prodigy performance, in any field, lies within the grasp of anyone who cares to try hard enough.

Anders Ericsson, a psychologist at Florida State University, falls into the minority camp. Given ten years of deliberate practice, Dr Ericsson says, anyone should be able to attain prodigy-level performance in his discipline of choice. The intuitive objection to this idea is the “Mozart argument”, as it is called by Brian Butterworth, a neuroscientist at University College London who has studied the psychological aspects of arithmetic for many years. This argument is that not everyone can become a Mozart merely by dint of hard work. Dr Ericsson wonders why not. After all, he argues, did not Mozart become Mozart by dint of hard work?

This may seem to be easily refuted by popular legends about geniuses such as Mozart, Paganini and Gauss, which report that they all showed exceptional skills in early childhood before receiving a shred of formal instruction. But Dr Ericsson points out that most of these stories are, indeed, legends. Rather than rely on such myths, he insists on studying those experts and prodigies who are living today.

Practice makes perfect

Dr Ericsson does not believe that the exceptional abilities of such people are due to their innate talent. Rather, he explains their performance by pointing out that they have developed powerful memories for storing information about particular topics. Psychologists recognise (and brain-science confirms) a distinction between short-term “working” memory and long-term memory. Dr Ericsson believes that prodigies get such impressive mileage out of their working memories by placing important pieces of information into their long-term memories in a way that makes them accessible to working-memory processes. According to Dr Ericsson, this “long-term working memory” is the essential ingredient for expert performance in any field, from chess to typing to golf, and can be developed at will.

Recently, some neuroscientists tried to observe long-term working memory in action. Nathalie Tzourio-Mazoyer at the University of Caen, in France, and her colleagues, measured the brain activity of a maths prodigy as he performed some feats of arithmetical acrobatics. Their subject, Rüdiger Gamm, can calculate the fifth root of a ten-digit numeral within seconds, and as quickly raise a two-digit number to its ninth power. When asked to divide one integer by another, he unhesitatingly recites the answer to 60 decimal places. Dr Tzourio-Mazoyer’s research, published in this month’s *Nature Neuroscience*, represents one of the first efforts to watch such a performance as it unfolds in the brain.

Through the use of positron-emission tomography (PET), an imaging technique, Dr Tzourio-Mazoyer’s team found that Mr Gamm was using more of his brain than normal controls, with whom they compared him, as he performed his mathematical tricks. Both Mr Gamm and the controls showed activity in 12

parts of the brain, but in five additional areas, Mr Gamm alone showed any activity. Three of these areas have previously been linked with the formation of episodic memories, which are a kind of long-term memory.

Mr Gamm appeared to be using his long-term memory to store the working results that he needed to complete his calculations—for example, all the dividends and remainders of a division sum. His use of this extra memory space meant that he could circumvent that perennial pitfall of mental arithmetic, losing one's place. In other respects, Mr Gamm's brain does not appear notably unusual. Nor does he perform with exceptional aptitude on tests of skills that lie outside his area of expertise, such as verbal recall. Moreover, Mr Gamm, who is now 26, was not born with this computing ability. He developed his skills, through four hours of practising memorisation daily, only after he had passed the ripe old age of 20.

As both the PET scan and his past experience bear out, enhanced memory appears to be the key to Mr Gamm's ability. So this study seems to provide some neurological evidence for Dr Ericsson's idea that long-term working-memory function underpins prodigy-level performance. So far, so plausible. But Dr Ericsson also maintains that such memory function, and the superlative performance that goes with it, can be attained by anyone—biology no bar—given enough practice and perseverance.

This is a much more contentious point. Twenty years ago, Dr Ericsson tried to prove it by training some ordinary laboratory volunteers up to prodigy-level performance in a number-memory task. Average people tend to have a "digit-span" of seven—in other words they can recall a string of seven random digits after hearing it read out once. But after a year's practice, two of his particularly dedicated subjects were able to increase their digit-spans to lengths of 80 and 100.

Just as Dr Ericsson took people with no discernible talent and turned them into champions, so, in a fashion, did a Hungarian, Laszlo Polgar. When he began training his daughters, it was widely believed that women could not play serious tournament chess. But through a deliberate (and still continuing) psychological experiment, Dr Polgar and his wife created a trio of world-class chess champions out of their own daughters, overturning this prejudice.

By 1992, all three had reached the women's top ten worldwide. The third, who presumably received the most refined training regimen, became the youngest grandmaster in the history of the game and is reckoned by her peers to have a good chance of becoming world champion one day. With remarkable, if not hubristic, prescience, Dr Polgar had written a detailed book on the subject of child rearing, entitled "Bring Up Genius!" before beginning the coaching of his children. But would any child reared by such a parent have become a chess prodigy?

Ellen Winner, a psychologist at Boston College who has been studying the relationship between exposure to the arts and subsequent academic achievement, believes not. She argues that only children with the "rage to master" a skill could make it through the gruelling years of training needed to achieve expert ability. The rage to master may be the point at which nature unequivocally makes its constraints felt. Even Dr Ericsson concedes that there might be a genetic component separating the child willing to persevere with a rigorous schedule from the child who would rather play videogames.

Put it another way: even if there are no born mathematicians or musicians, there may be "born achievers". The particular area in which such people make their mark might be determined purely by the kind of environment or skill to which they were exposed and how hard they then applied themselves. But among many psychologists this all-purpose view of genius is not a popular one. Dean Simonton of the University of California, San Diego, dubbed it the "drudge theory" of genius in a recent book review.

Dr Simonton considers genius to have more of a genetic component. Yet this conviction has not stopped him from writing a book of profiles of psychologists who were reckoned to be geniuses. The American Psychological Association will publish this book later this year, so that its members may learn from Dr Simonton's observations on the great prodigies of psychology. And though Dr Ericsson is not on his list this year, in ten years from now he doubtless will be—if he wants it badly enough.

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Out of this world

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SIN must be rampant among astronomers. Hubris, perhaps, of the sort that caused the Olympian gods to punish Tantalus by making him forever hungry and thirsty but just out of reach of food and water. In similar vein, many of those who came to the winter meeting of the American Astronomical Society brought results that were tantalising without actually sating the appetite.

One of the most tantalising of all was the non-announcement of the discovery of an earth-sized planet orbiting a star other than the sun. This was made by Laurance Doyle and Jon Jenkins of the SETI Institute, an organisation dedicated to the search for extraterrestrial intelligence.

Dr Doyle and Dr Jenkins study binary systems, particularly those in which two stars, as seen from earth, periodically obscure one another as they orbit their common centre of gravity. The theory of planetary formation suggests that if a planet were to be in orbit around such a binary system it would be in the same orbital plane as the stars, and would thus pass regularly in front of them. That would cause a minute attenuation of the starlight, which would—even if the planet were as small as the earth—be detectable through a modestly sized telescope.

This dip in the “light curve” of the system could, however, take hundreds of millions of forms, depending on the configuration of the two stars and the earth-sized planet concerned. Dr Doyle and Dr Jenkins compared six years’ worth of observations of a binary called CM Draconis with each of these theoretical possibilities, and found nine dips in the actual light curve that appeared to match a theoretical one. This was exciting—but not that exciting.

However, each theoretical possibility also predicts a particular pattern of future dips, so that the chaff of apparent dips caused by observational noise can be winnowed from the wheat of real planets by patient watching and waiting. Six candidate blips have already fallen by the wayside; for two others the fatal date has not yet come. For the ninth, however, the predicted dip in the light did occur. But, tantalisingly, it was not as deep as expected.

So was it the first earth-sized extrasolar planet? Since he would have a chance of about one in four of being proved wrong eventually, Dr Doyle sagely claims nothing of the sort. Being tantalised is, after all, just an unpleasant state of mind; but jumping the gun is a scientific *faux pas* of the worst kind. In the not-too-distant future, as every Star Trek fan knows, things like that could get you sent to a particularly unpleasant earth-like planet: penal colony Tantalus V.

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Stellar origins

A foreign streak

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IF STARS carried passports, millions of those in the earth's native galaxy, the Milky Way, would have reason to fear deportation as illegal aliens. Even after residing there for 10 billion years it seems they still do not blend sufficiently well with their surroundings to pass for genuine locals, according to Rosemary Wyse, of Johns Hopkins University in Baltimore. In a presentation to the American Astronomical Society's winter meeting in San Diego, Dr Wyse argues that the Milky Way has never been a peaceful congregation of stars. Even now it is known to be tearing apart, by the force of its gravity, a small galaxy in the constellation of Sagittarius. There must have been a similar but much more intense encounter with another small galaxy in the past. That resulted in the absorption of the galaxy in question, but this "last significant meal", as Dr Wyse calls it, has not yet been fully digested.

One reason to think that the Milky Way had such a meal several billion years ago is its structure. The main visible part of this structure is a disc. This disc appears, seen from the human vantage-point within it, as the band of stars across the sky that the ancient Greeks thought of as milk spilled by Zeus's wife, Hera. What cannot so easily be seen is that the disc is fluffed up. On both sides it is accompanied by what is called a "thick disc", which consists of stars that have for some reason been accelerated upwards or downwards.

These out-of-position stars indicate that something has deeply disturbed the way things were in the galaxy. And from the ages of the stars in the thick disc, and the fact that no new stars are being born there, astronomers conclude that this something must have happened a long time—some 10 billion years—ago.

To search for stars of foreign origin—ie, leftovers from the supposed meal—Dr Wyse and her colleagues from Cambridge University in England and the Mount Stromlo and Siding Spring observatory of the Australian National University have been observing part of the sky with an instrument called the 2dF, or 2°-field spectrograph. This machine can investigate an area of the heavens that is 2° across (as large as 20 full moons), analysing the precise spectral colours of up to 400 stars at a time. In the next few months, the team plans to use the 2dF to look closely at 10,000 stars. At the meeting it reported the results for 1,500 stars that it has already investigated. These suggest that a population of stars that invaded the Milky Way when it was only a third of its present age can still be recognised.

Chemistry and speed are the main give-aways, and both can be worked out using a spectrograph such as 2dF. A spectrograph measures how bright a star is at any given wavelength. The interaction between light and the atoms of individual elements in a star's outer layers causes some wavelengths to be suppressed, and others to be amplified. A star's spectrum thus contains thousands of peaks and valleys, which provide a good estimate of that star's composition. And there is a bonus. If the signature of an element is found at a wavelength that is slightly to the blue side of what experiments in a laboratory show, this means the star is moving towards the earth, making the wavelength of the light it was emitting slightly shorter. If the shift is redward, the star is receding.

The stars examined by Dr Wyse and her colleagues have a variety of velocities and chemical compositions. But the first data from the survey are encouraging, in that not all combinations occur. There seems to be a population of stars that are both poorer than average in elements other than the two lightest ones (hydrogen and helium) and moving at faster than average speeds. Since it is known that stars in small galaxies have fewer heavy elements than stars in big ones, it is plausible that these stellar oddballs are, indeed, stars that have dropped in from what was once a small neighbour of the Milky Way.

If the forthcoming observations with 2dF confirm this, an exciting era of galactic archaeology will begin. What was the disappeared galaxy like? Can astronomers deduce, from the chemical composition of the

leftover stars, how big it was? Can they, by counting the proportion of heavier, shorter-lived stars among them, establish its age?

And stars in the thick disc may not be the only aliens. The globular star clusters that surround the Milky Way also seem to come in two age groups. The younger ones, tellingly, are closer to the disc. Could they, too, be not quite from here? The newcomers are welcome, surely, after 10 billion years. But first they have some explaining to do.

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Genomics

Ticket to ride

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TO SUCCEED in the business of biotechnology, you need to screw your courage to the sticking place. But researchers at Hybrigenics, a small firm based in Paris, and their colleagues at the Pasteur Institute have put their science there too. In a paper published in this week's *Nature* the team has shown that looking at how proteins stick to each other can map the interactions between thousands of such molecules inside a cell, thereby providing useful insights into their functions.

Now that the full genetic sequences of a variety of creatures are known, there is a desire among researchers to make sense of them so as to get a better grip on basic cell biology and thus, eventually, to create new drugs. Straight genomics (the business of determining DNA sequences) is thus giving way to functional genomics, which tries to determine how, where and when genes act—through the proteins that they encode—inside the body.

Human cells contain an estimated 40,000-50,000 genes, encoding perhaps as many as 1m proteins, most of whose functions are still unknown. What is known, however, is that the biochemical pathways these proteins control frequently require that the proteins link up with one another. Such pathways involve molecules being handed from one protein to another, in order to be tweaked a little at a time into something that a cell can make use of—rather as a car is put together piece by piece on an assembly line. Proteins which like to stick together are thus likely to belong to the same biochemical pathway. If protein "A" sticks to protein "B", which sticks to protein "C", which in turn sticks to protein "D", then the chances are that a molecule is being passed for processing from A to B to C to D.

A small cottage industry of biotechnology firms has sprung up to investigate this, using a variety of methods. Hybrigenics relies on a combination of souped-up yeast and powerful computing techniques to get the job done. In demonstrating its approach, the company has chosen to work with a simpler organism than man, namely *Helicobacter pylori*, the bacterium that causes stomach ulcers. The full genome of *Helicobacter* is known, but the jobs of most of the proteins that it produces are ill-defined. To work out how these proteins interact with one another, Jean-Christophe Rain and his colleagues used an established technique known as a "two hybrid" assay.

First, they genetically engineered some yeast cells, known as "bait" cells, to produce one of more than 260 *Helicobacter* proteins. Then, they chopped the *Helicobacter* DNA into millions of bits and stuck these into another set of yeast cells to generate "prey" cells that produced unknown fragments of protein. Finally, they mixed the two sets of cells together, leaving them to fuse to one another. Prey cells that stuck to bait cells turned blue through a complex biochemical process which was also engineered into them. This enabled the researchers to separate successful interactions from failed ones.

Once extracted, the blue cells had their DNA sequenced in order to determine which protein the "prey" cells had been producing. The prey then became the bait for a subsequent round of testing. Using this approach, Dr Rain's group has screened 5 billion interactions between bait and prey, and managed, using its computers, to piece together whole cascades of interacting proteins.

According to Donny Strosberg, the head of Hybrigenics, the team has worked out about half of the protein interactions that happen in *Helicobacter*, but he is content to leave it at that in order to pursue bigger fish. The system could, for example, be used to explore the binding between *Helicobacter* proteins and those in the stomach cells that it attacks, in order to find targets for new drugs to block ulceration. And the company is already using the system to work out which proteins interact with one another in cancer cells, also with a pharmaceutical end in mind.

As Dr Strosberg sees it, the business of turning genomic information into usable biochemical information is a bit like navigating the Paris metro. Straight genomics has revealed the names of the stations, but

without showing how they connect with one another. That is what functional genomics can do. With both in hand, the business of understanding what goes on inside cells may one day become an easier ride.

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Megaphoneys

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Popular science doesn't have to be fully proven to be worth reading, just scientific

UBIQUITY: THE SCIENCE OF HISTORY OR WHY THE WORLD IS SIMPLER THAN WE THINK
By Mark Buchanan

Weidenfeld & Nicolson; 236 pages; £20

Buy it at Amazon.co.uk

CREATION: LIFE AND HOW TO MAKE IT
By Steve Grand

Weidenfeld & Nicolson; 230 pages £18.99.

Buy it at Amazon.co.uk

IN SCIENCE publishing, as in other fields, not everything that is interesting is always true. Although many popular science books set out to explain new theories or discoveries to interested laymen, a good many also serve a different purpose: to allow their authors to take speculative ideas for a walk. Whether or not these ideas turn out to be correct is not necessarily the point. For, in the process of considering a new theory, such books may encourage the reader to think about the world in a new way.

Brian Greene's book "The Elegant Universe" (1999), a winner of the Aventis prize, is a masterly explanation of the theory of superstrings. Yet amid his discussion of 11-dimensional space-time and the difficulties of uniting general relativity with quantum mechanics, Mr Greene is refreshingly candid about the fact that superstring theory is still unproven, an admission that does nothing to diminish the reader's enjoyment. Similarly, "Guns, Germs and Steel" (1997), by Jared Diamond, which won the Pulitzer prize for non-fiction, advances a speculative explanation for why Western Europe ended up colonising the rest of the world, rather than vice-versa. Although his book has been attacked for being politically correct, in the main it is both coherent and convincing.

Another example is "The Fabric of Reality" (1997) by David Deutsch, an Oxford physicist, who argues that scientists have already found the "theory of everything" but refuse to accept it because they do not like its counter-intuitive implications. His theory might not convince everyone, but Mr Deutsch's explanations and thought experiments along the way are exemplary in their precision and clarity.

All these books, in other words, transcend the obvious drawback, for the reader, that they might be wrong. Two new books—"Ubiquity" by Mark Buchanan and "Creation" by Steve Grand—also examine interesting yet tentative ideas. Neither lacks for ambition. The first purports to explain "the science of history", while the second claims to reveal how to create life itself.

Criticism and criticality

“Ubiquity” is of the same ilk as all those books about chaos theory and complexity that were so popular in the late 1980s and early 1990s. It sets out to explain a concept called “self-organised criticality”. Scientists studying such diverse phenomena as earthquakes, stockmarket crashes and forest fires have noticed, says Mr Buchanan, that their distributions all follow something called a power law. This means that, for example, there are lots of small earthquakes, but few big ones; in fact, if you consider earthquakes of a particular magnitude, there are four times as many with half that magnitude, and a quarter as many with twice the magnitude. Once you know what to look for, this kind of scaling shows up all over the place in natural systems that are poised on the edge of change—in a critical state. Furthermore, such critical states seem to arise naturally in many complex systems—hence the idea of “self-organised criticality”.

So far, so good. But while Mr Buchanan explains all this well, he also makes a sweeping claim: that human society too is an example of self-organised criticality, and that it is therefore possible to use science to explain the patterns of history. This is not merely a throwaway suggestion in the last chapter, however. The idea that self-organised criticality is the “science of history” is the spine of the entire book, which opens with a description of the events that precipitated the first world war. Mr Buchanan then explains the underlying mathematical ideas before returning to his grand central theme, and examining the possibility that the distributions of wars and revolutions might also obey a power law.

It is stimulating stuff, but does “Ubiquity” convince? Alas, no. Much of the research described stems from analysis of computer models of collapsing sand-piles that was done by Per Bak, a physicist, and his colleagues in the late 1980s. What is new is the idea that this research can be extended to human history, which Mr Buchanan does not succeed in supporting. Indeed, at times he does not seem entirely convinced himself, and his overuse of historical quotations may lead readers to conclude that he is using borrowed wisdom to buttress an argument he knows to be flimsy. But perhaps the biggest problem is that even if earthquakes, stockmarkets and human societies obey the laws of the “science of history”, all that says about them is that their behaviour is unpredictable. And as Galileo would have pointed out, a theory that cannot be meaningfully tested or disproved is not much use.

“Creation” is, if anything, an even more ambitious book. Steve Grand, a talented computer programmer who is best known for creating a game called “Creatures”, in which players nurture virtual pets on the screens of their computers, claims to be able to explain the mystery of life, and hence how to create it artificially. His contention is that life consists of persistent patterns of information, and that since these can be mimicked inside a computer, the resulting programs can be said to be alive. Provided you agree with his definition of “life”, then he has, indeed, discovered how to create it.

But it is hard to avoid the conclusion that Mr Grand has simply moved the conceptual goal-posts. He spends the first half of the book justifying his redefinition of life in a lengthy narrative that combines personal memoir, Zen-like musings and scientific explanations. All of this sets the stage for the moment when he applies the Promethean spark to his software to create “the closest thing there has been to a new form of life on this planet for four billion years.” The result, however, is anti-climactic. Certainly, the best part of the book is Mr Grand’s description of the inner workings of his artificial-life software, and the way it mimics biological processes to give rise to all kinds of life-like behaviour. But life-like behaviour is not, to most people, the same as life. Mr Grand, like Mr Buchanan, undermines an otherwise intriguing and provocative book by overstating his case, from the title onwards.

Many science books have fallen into this trap, particularly in the fields of artificial intelligence and consciousness. “How to Build a Mind” (2000), by Igor Aleksander, for example, notably fails to deliver, as does Daniel Dennett’s “Consciousness Explained” (1991). No doubt making such grand claims helps to sell more books and generate publicity. But the best science books are those that most clearly adhere to scientific principles themselves: they present a hypothesis, examine the data, and leave readers to conclude what they will. Handing down the verdict in the book’s title, and extrapolating beyond the limits of the evidence, is simply unscientific.

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The roots of prejudice

Doctor's mask

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FRANTZ FANON was born in Martinique and educated in France, where he became a psychiatrist. In 1953, he went to work in Algeria and soon sided with the nationalists engaged in armed resistance against the French. Through his psychiatric work, Fanon was one of the few people other than victims or perpetrators who knew the full extent of the French army's use of torture against those fighting for an independent Algeria.

FRANTZ FANON: A LIFE
By David Macey

Granta; 656 pages; £25

Buy it at
Amazon.com
Amazon.co.uk

Shortly before he died, Fanon wrote "Les Damnés de la Terre" (The Wretched of the Earth, 1961), the book he is best remembered for, although its very notoriety overshadows his other work. A sort of non-Marxist bible of the oppressed, it was seized on by mid-century radicals in the third world as justifying violence not only for national independence but as a response to racism and poverty. The Fanon who is likelier to interest today's readers is the doctor who saw at first hand how humiliation and prejudice can affect people on both sides of the colour barrier and who struggled to understand the pathology of ethnic hatred.

Fanon never thought of himself as black until he arrived in France, where he found himself stereotyped midway between the *tirailleurs sénégalais*, who were trained to frighten civilian populations, and the fez-wearing black face that grinned at children from cocoa packets of Banania. The shock was a lasting one. As Fanon lay dying from leukaemia, he had a nightmare of being put through a washing-machine and "de-negrified". Blackness, he wrote, does not exist as such. It is something one discovers in another's gaze.

David Macey's life of Fanon provides, as background, an excellent guide to the history of French decolonisation and the intellectual debates of post-war France. The contrast between the abstract belief in *liberté, égalité, fraternité* that was preached from Dunkirk to Fort-de-France and the reality of "otherness", which Fanon experienced on arriving in France to study medicine, provides a haunting, if at times overdone, leitmotif that runs through the book, as it did through his life.

Fanon's first book, "Peau noire, masques blancs" (Black Skin, White Masks), which was published in 1952, is an angry young man's book, that mingles personal experiences and psycho-social ideas. Fanon had little patience with the cult of *négritude* which Aimé Césaire, also from Martinique, and Léopold Senghor, who became president of Senegal, believed would transcend racial barriers and rehabilitate African culture. His interest in mankind was broader. With François Tosquelles, a Catalan-born psychiatrist, he experimented in social therapy. This, and his encounter with Algerian workers in Lyons who suffered from what he identified as the "North African syndrome", a psychosomatic condition brought on by being cut off from one's home environment, prepared him for his later work in Algeria.

There, he worked in a hospital with white, Arab and Kabyle patients. This reinforced his interest in the social dimension of some psychological ailments. Psychotherapy, in his view, involved understanding the patient's way of seeing the world, however irrational it might seem. As the violence increased in Algeria, Fanon treated (mostly Arab) victims and (mostly French) perpetrators of torture who appealed to him for help. He turned no one away and found that both needed care.

Fanon died before Algeria became independent in July 1962. Its soldiers and religious thugs have since made nonsense of his hopeful theory that "purifying" violence would spend itself once independence was achieved. He seems here to have forgotten a truer observation of his, taken directly from clinical experience: in face of violence and humiliation, victims will turn also on each other. It is for conclusions such as this, and for his other pioneering work in the psychology of ethnic prejudice, that Fanon deserves to be read and remembered.

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Mountaineering lore

Rock faces

Jan 11th 2001
From The Economist print edition

HOW THE ENGLISH MADE THE ALPS
By Jim Ring

John Murray; 304 pages; £19.99

Buy it at Amazon.co.uk

WAS it consummate gamesmanship or just economic swank that enabled the English to transform the perception of mountains as places of doom into spiritual playgrounds, with an ether "more of a tonic than the finest champagne"?

Jim Ring's narrative offers an entertaining but breathless canter through the formidable list of poets and writers (among them Byron, Shelley, Ruskin, Stevenson and Conan Doyle) who popularised the Alps; through the emergence of professional middle-classes who worked for a living, had vacations to take and money to spend; and through the infrastructure that emerged to support their enthusiasms—the roads, hotels, telegraph post offices, restaurants and, of course, the railways, many of which were often built by English engineers.

And quite a tale it is. At the start of the 19th century, the Grand Tour was still the privilege of a small number of aristocrats. By the end of it, Alpine package tours were being sold by the thousands by Thomas Cook and his competitors. At the start, the industrial revolution (and the resounding victory over Napoleon) had given the English economic and political advantages that were not matched by other European nations until the middle of the century. By then, England was the first country in the world where the majority of the population would be living in cities (albeit riddled with tuberculosis, for which a winter visit to the Alps in due course became de rigueur).

Initially, mountain scenery was a cause of fear and dread, sublimity's exhibit A for the Romantic mind. Eventually, it was a subject that "even a solid archdeacon with a firm belief in the British constitution, and Church and State, was compelled to admire." At the start, mountaineers had to justify their excursions on grounds of scientific observation and it took a century before climbing was accepted as an opportunity for adventure and an end in itself.

In an earlier history of the Alps, Arnold Lunn wrote that "men lifted up their eyes to the hills to rediscover the spiritual values which were clouded by the smoke and grime of the industrial revolution." It would have been interesting if Mr Ring had delved rather deeper into the common cultural links uniting Alpinists with, say, the Pre-Raphaelite Brotherhood and the Arts and Crafts Movement. Equally, he merely skates over the enormous impact that Darwin's theories in "The Origin of Species" had on conventional worthies and in particular on mountaineers who, as they scrambled up the rock-faces, grasped the evidence for those theories in their hands. That said, as with many enjoyable historical overviews, detailed scholarship has not stood in the way of a good story.

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About sponsorship

Music as healing

Sound, mind and body

Jan 11th 2001
From The Economist print edition

BEETHOVEN once reportedly said, “I leave my music to heal the world.” Philip V of Spain was believed to have been cured of his melancholia by the singing of a brilliant castrato, Farinelli; every night, for ten years, he sang the same four arias. But if music cures the soul, does it also heal the body? Can it ever be more than a cathartic force, or a soothing distraction?

The relationship between music and the spiritual and emotional aspects of healing is widely shared. Performances at the Sacred Voices millennium music village in London last year ranged from chanted Sri Lankan Buddhist blessings to sung Egyptian Sufi prayers to a Californian millennium hum led by a jazz singer, Bonnie Barnett. Some concentrated on the listener; others (mostly New Agers) on the spiritual benefits to the performer herself. But those currently interested in sound and healing, whether monks or New-Age therapists, argue that there is something physical to it as well. And, increasingly, the medical establishment in America and Europe has become quite interested as well.

The difficulty lies in defining what “it” is. One of the most promising areas to find answers is in the treatment of acute pain. The “Chalice of Repose” project in Missoula, Montana, offers live music to those in the last stages of terminal illness, often cancer. Doctors at St Patrick’s Hospital, involved with the project since 1992, were sceptical at first. However, they then watched patients on very high levels of painkillers needing significantly lower doses after a visit by the Chalice team, which usually included harpists and singers. Some even stopped needing painkillers altogether. The number of doctors making referrals to the project quickly rose from one to 89. The general consensus: “We don’t understand it, but it works.”

Music’s anxiety-reducing qualities have long been recognised outside the medical profession. In the 1920s, MUZAK introduced music into lifts in skyscrapers to help calm passengers. Today, a wide range of clinics and researchers report lower blood pressure, reduced pulse rates, easier breathing, and less need for pain medication and anaesthesia after patients receive certain forms of music therapy. One centre in Atlanta uses a hospital-wide music system to increase calm among patients and reduce the need for general anaesthetics. Paul Robertson, who leads the Medici Quartet, reports growing demand from doctors and businessmen for his lectures on music and the mind.

The explanations for music’s effects vary widely and wildly. But what many projects have in common is the music they use—Gregorian chant and Mozart. The Chalice workers in Missoula use Gregorian chant partly because it is unmetered and so can be carefully matched to the dying patient’s breathing. The controversial Paris-based Tomatis method, which plays music through a special listening device to combat syndromes ranging from autism to vertigo (and was famously used by the then-delinquent teenager, Gérard Depardieu, to overcome a stutter), uses both Gregorian chant and Mozart.

There has been something of a Mozart-mania in America, with books promising that playing Mozart to a child in the womb will increase its IQ, and several southern states considering legislation that would award a free classical-music CD to every new-born infant. The furore was started in part by Frances Rauscher, a Julliard-trained cellist with a doctorate in psychology. In the early 1990s, she and her colleagues identified something that they called the “Mozart effect”; college students who listened to ten minutes of Mozart’s Piano Sonata K 448 experienced a significant increase in their spatial-temporal skills, compared with those who sat in silence, listened to instruction, or listened to Mendelssohn (though most rated Mendelssohn as more exciting) before being tested. As these skills are part of IQ tests, some people began to claim that music made people smarter. This attracted a great deal of attention, although attempts to replicate the study have had mixed results.

One effect of the frenzy has been more money for research, which has helped to open up a more detailed discussion on the relationship between music, the brain and brain development. Anne Savan of Reading

University found that playing Mozart orchestral compositions helped her restless, special-needs students; their pulse rate lowered, their breathing was regularised and their concentration improved. Other music simply wasn't as effective. At first she attributed this to the range of high harmonics used by Mozart, but her later research, which manipulated the frequency levels of various compositions, showed that frequencies alone were not responsible for this physiological response.

As knowledge of the brain expands, it may become more possible to map music's influence on the brain and brain development. Whether and why Mozart is special will become more and more within our grasp. Hearing is an early sense to develop and often the last to be lost—some people in a coma can still hear. But is this culturally determined or to an extent hard-wired? Does Mozart work as well for healing in Liberia as it does in Los Angeles? Perhaps refugee camps should be supplied not only with anaesthetics but a wide range of recordings.

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Essays

Solemn scribbles

Jan 11th 2001
From The Economist print edition

THE decade that these volumes cover was productive for Aldous Huxley. He wrote poetry, travelled around the world and produced some of his best novels (including “Antic Hay” and “Point Counter Point”). He also turned out a huge quantity of journalism, criticism and travel writing—more than 200 articles in 1920 alone. These two volumes, the first of a projected five, bring much of that work back into print, some of it in book form for the first time.

Huxley began as a workaday journalist, somewhat unconvinced of his own literary notes—“What occupation is pleasanter, what less exacting, than the absorption of curious literary information?” But he already had the good journalist’s ability to pursue his own concerns through whatever miscellaneous subjects came to hand. In his praise of Ben Jonson, Chaucer and Christopher Wren, he advances a coherent aesthetic that is at once classical, humane and disabused: “Many English poets have loved the earth for the sake of something—a dream, a reality, call it which you will—that lies behind it. But there have been few ... who have been in love with the earth for its own sake.”

The sobriety that he prizes in art he defends both against Romanticism and mysticism and against the animal excitement of mass culture. Fiercely, he inveighs against the “rhythmic throbbing and wailing glissandos” of jazz, the vacuous “Good Time” that produces only “ennui, restlessness, spleen”. His eyewitness account of the confusions, follies and vices of the 1920s is the most valuable part of these essays, and remains relevant, of course, to our own distracted time.

But these same themes, which are handled in a pointed, urbane and literary way in the first volume, become dangerously solemn in the second, as Huxley begins to take them (and himself) more seriously. His dual critique—of philosophical and religious idealism on the one hand, and popular inanity on the other—leads him in quite incompatible directions. At times he calls for a thoroughgoing scepticism, even relativism, attacking the Christianity of Pascal (unconvincingly) and Francis of Assisi (amusingly). But elsewhere, following his kinsman Matthew Arnold, he defends timeless standards of “goodness, beauty, wisdom and knowledge”, which he takes to be “everywhere and in all kinds of society broadly the same.”

Finally Huxley identifies himself as a “life-worshipper”, though this is too Nietzschean a label for what amounts to a rather tepid Epicureanism. His ideas are not much helped by his writing style, which grows more diffuse and irritable as time goes on. And his hectoring assault on popular culture shades, at moments, into bigotry: especially unfortunate is the passage on “the yammering amorousness and clotted sensuality which have been the characteristically Jewish contributions to modern popular music.”

But even with their flaws, there is much to enjoy in these volumes, especially the first; if they do not, in the end, permanently enhance Huxley’s stature, they are nonetheless important as a document of his times, and of a window on to a stage in the evolution of his mind.

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About sponsorship

American fiction (1)

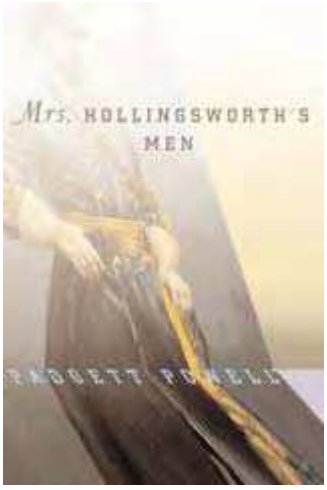
Cauterise

Jan 11th 2001
From The Economist print edition

MRS HOLLINGSWORTH'S MEN
By Padgett Powell

Houghton Mifflin; 144 pages; $20

Buy it at Amazon.com



AFTER growing increasingly unhinged over the course of two previous short stories, Padgett Powell's Mrs Hollingsworth lavishly explores her offbeat fantasies in his short, caustic novel, "Mrs. Hollingsworth's Men". At 50, with two dreary daughters she dubs the Tupperware sisters ("and square canisters at that") and a husband blurred to near non-existence through familiarity, the disgusted heroine sits down at her kitchen table somewhere in the American South to write a grocery list. Yet rather than scribble "eggs", Mrs. Hollingsworth conjures up a host of personages historical and imagined, including a serial-killer, Ted Bundy; Kennedy's assassin, Lee Harvey Oswald; and a stern Confederate general named Nathan Bedford Forrest, whose presence in this herky-jerky tale confirms that even the new South can't escape the civil war.

Cut into tiny, abrupt chapters that can each function as a separate prose-poem, this odd, discombobulated little book is knit by a disaffected—nay, sarcastic—disposition. The protagonist (and, one can assume, Mr Powell) is offended by all manner of contemporary cultural bugbears: the self-satisfied mellifluousness of National Public Radio, the smugness of the Volvo, and the pretension of academic claptrap (for example, the university course: "Theorising Diaspora, Adjudicating Hybridity"), not to mention frozen vegetables that never resemble the photo on the package, multiculturalism, and "builder's bottom".

Though her daughters think she's losing her mind, Mrs Hollingsworth's tirade of a "grocery list" is her way of locating true love and the lost, politically correct flotsam into which the men around her have degenerated. While he may have already capitulated to Union troops, she enlists the stalwart Confederate general of her imagination to fight one more losing battle with the new Southern male, a pallid spawn who can't shoot, can't hunt, can't fight, and can't play cards. "Confused and afraid of life, he would resort to honesty, a fool's tool that would dig a grave more quickly than undiluted corruption."

Some of this spirited alienation is hilarious, likewise the jivin' dialogues between step 'n' fetch it Negroes on a Mississippi courthouse lawn. "You talks funny, Erasmus," one observes. "Say 'widdat' and 'sto', and I bet you say 'ho' ... But even you is not gerng say, 'Ise gwyne down to duh ribber.'" Mr Powell's ear is as sharp as it is insolent.

For many traditionalists, "experimental" fiction is a red flag, and this novel will not be everyone's cup of tea. The disjointed style sacrifices narrative momentum, and self-consciously fabricated characters never develop fullness of blood. Yet for adventurous readers willing to surf its choppy crests, "Mrs Hollingsworth's Men" offers a bracing dip. Mr Powell has given satisfying expression to the nebulous popular apprehension that everything has just really got sort of dumb.

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About sponsorship

American fiction (2)

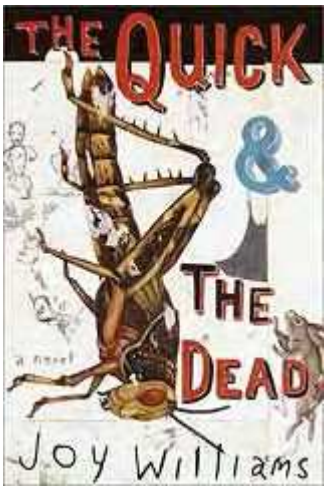
Lacerate

Jan 11th 2001
From The Economist print edition

THE QUICK AND THE DEAD
By Joy Williams

Knopf; 352 pages; $25. To be published in the UK in May by Harvill; £15.99

Buy it at
Amazon.com
Amazon.co.uk



JOY WILLIAMS'S quirky fourth novel "The Quick and the Dead" follows a trio of 16-year-old misfits in a warped "Charlie's Angels" set in the American south-west. Driven hazily to defend animal rights, the girls accomplish little beyond diatribe: they rescue a putrefied ram and hurl stones at stuffed elephants. In what is structurally a road novel that ends up where it began, the desultory threesome stumbles upon both cruelty to animals and unlikely romance. A mournful dog is strangled by an irate neighbour; a taxidermist falls in love with an 8-year-old direct-action firebrand determined that he atone for his sins. A careen across the barely tamed Arizona prairie, this peculiar book aims less for a traditional storyline than a sequence of jangled (often hilarious) conversations, ludicrous circumstances, and absurdist tableaux. The consequent long-walk-to-nowhere is both the book's limitation and its charm.

All three girls are motherless. Fiercely political Alice discovers that her erstwhile parents are her grandparents, who thereupon shrivel: "Deceit had kept them young whereas the truth had accelerated them practically into decrepitude." Both parents of the doleful Corvus drowned while driving on a flooded interstate off-ramp. The mother of the more conventional Annabel ("one of those people who would say, 'We'll get in touch soonest' when they never wanted to see you again") slammed her car drunkenly into a fish restaurant. Later, Annabel's father observes to his wife's ghost, "You didn't want to order what I ordered, darling." The sharp-tongued wraith snaps back: "That's because you always ordered badly and wanted me to experience your miserable mistake."

Against a roundly apocalyptic world view, the great pleasures of this book are line-by-line. Ms Williams can lacerate setting and character alike in a few slashes: "It was one of those rugged American places, a remote, sad-ass, but plucky downwind town whose citizens were flawed and brave." Alice's acerbity spits little wisdoms: putting lost teeth under a pillow for money is "a classic capitalistic consumer ploy, designed to wean you away at an early age from healthy horror and sensible dismay to greedy, deluded, sunny expectancy."

Whether or not the novel, like Alice, expressly advocates animal rights, an animal motif crops up in every scene, as flesh-and-blood "critters" (usually dead) or insipid decoration on crockery. If Ms Williams does not intend to induce human horror at a pending bestial Armageddon, she at least invokes a future of earthly loneliness, where animals appear only as ceramic-hen butter dishes and endangered-species elastoplasts. One caution: when flimsy narrative superstructure begins to sag, anarchic wackiness can grow wearing. While "The Quick and the Dead" is edgy from its first page, the trouble with starting at the edge is there is nowhere to go. Nevertheless, Ms Williams is original, energetic and viscously funny: Carl Hiaasen with a conscience.

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Contemporary urbanism

City life

Jan 11th 2001
From The Economist print edition

THE SEDUCTION OF PLACE: THE CITY IN THE TWENTY-FIRST CENTURY
By Joseph Rykwert

Pantheon; 283 pages; $27.50.
Weidenfeld & Nicolson; £20

Buy it at
Amazon.com
Amazon.co.uk

Reuters

Soon just a memory

JOSEPH RYKWERT entered his field when post-war modernist architecture was coming under fire for its alienating embodiment of outmoded social ideals. Think of the UN building in New York, the city of Brasilia, the UNESCO building in Paris, the blocks of housing "projects" throughout the world. These tall, uniform boxes are set back from the street, isolated by windswept plazas. They look inward to their own functions, presenting no "face" to the inhabitants of the city, no "place" for social interaction. For Mr Rykwert, who rejects the functionalist spirit of the Athens Charter of 1933, a manifesto for much post-war building, such facelessness destroys the human meaning of the city. Architectural form should not rigidly follow function, but ought to reflect the needs of the social body it represents.

Like other forms of representation, architecture is the embodiment of the decisions that go into its making, not the result of impersonal forces, market or historical. Therefore, says Mr Rykwert, adapting Joseph de Maistre's dictum that a nation has the government it deserves, our cities have the faces they deserve.

In this book, Mr Rykwert, a noted urban historian of anthropological bent, offers a *flâneur*'s approach to the city's exterior surface rather than an urban history from the conceptual inside out. He does not drive, so his interaction with the city affords him a warts-and-all view with a sensual grasp of what it is to be a "place".

His story of urbanisation begins, not surprisingly, with the industrial revolution when populations shifted and increased, exacerbating problems of housing and crime. In the 19th century many planning programmes and utopias (Ebenezer Howard's garden city and Charles Fourier's "phalansteries" among them) were proposed as remedies. These have left their mark on 20th-century cities, as did Baron Hausmann's boulevards in Paris, Eugène Viollet-le-Duc's and Owen Jones's arguments for historical style, and Adolf Loos's fateful turn-of-the-century call to abolish ornament which, in turn, inspired Le Corbusier's austere modern functionalism. The reader will recognise all these ideas in the surfaces of the cities that hosted them: New York, Paris, London, Vienna.

Cities changed again after the second world war as populations grew, technology raced and prosperity spread. Like it or not, today's cities are the muddled product, among other things, of speed, greed, outmoded social agendas and ill-suited postmodern aesthetics. Some bemoan the old city's death, others welcome its replacement by the electronically driven "global village". Mr Rykwert has his worries, to be sure, but he does not see ruin or *anomie* everywhere. He defends the city as a human and social necessity. In Chandigarh, Canberra and New York he sees overall success; in New Delhi, Paris and Shanghai, large areas of failing. For Mr Rykwert, a man on foot in the age of speeding virtuality, good

architecture may still show us a face where *flâneurs* can read the story of their urban setting in familiar metaphors.

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About sponsorship

Willard Quine

Jan 11th 2001
From The Economist print edition

Willard Van Orman Quine, philosopher, died on December 25th, aged 92

AP

WHO came after Wittgenstein? The answer is Willard Quine. Historians will remember him as the most important philosopher of the second half of the 20th century. Yet, unlike Ludwig Wittgenstein, Mr Quine was not widely known. Paradoxically, that fact reflects a large part of his achievement.

He was drawn to philosophy by the writings of Bertrand Russell. He described "Principia Mathematica", which Russell wrote together with Mr Quine's teacher, Alfred Whitehead, as the book that meant the most to him. (It consists of three enormous volumes of formulae; Mr Quine's tastes were dry.) He took two main things from Russell. One was a belief that both the content and methods of mathematical logic were fundamental to philosophy; and the other a conviction that philosophy is a science, differing from other branches of inquiry only in its level of generality and abstractness.

Philosophy would make progress, the two men believed, by accumulating knowledge in painstaking steps, drawing on the collaborative efforts of many, just as the other sciences do. They wanted it to end its old bad habit of looking to the all-encompassing visions of gurus for illumination. This was and still is a controversial idea among philosophers, many of whom profess to reject the assimilation of their subject into science. But it has won the day. Whether or not they agree with it in theory, most philosophers in the English-speaking world behave as if it were true. Philosophy has become an increasingly specialised profession, with no gurus, thanks in no small part to Mr Quine's influence. As a non-guru he was not a public figure.

After some formative trips to Vienna, Prague and Warsaw in the early 1930s, where he met the members of the "logical positivist" Vienna circle, Mr Quine returned to his native America. He began teaching at Harvard, where he stayed until his retirement, interrupted only by service in the second world war when he was a code-breaker. His pupils included not only many philosophers but also Tom Lehrer, a satirical songwriter, and Theodore Kaczynski, known as "the unabomber", whose parcel bombs, set off apparently as a protest against technology, killed three people.

The missing question mark

Willard Quine's early work was in the field of mathematical logic and set theory, the subject of half a dozen of his 23 books. His typewriter was adapted to provide keys for mathematical symbols. One of the keys dispensed with was the question mark. He quipped that he did not need it because he dealt in certainties. Although Mr Quine has no important theorem to his name he wrote on mathematical logic with ingenuity and wit. He took pleasure in being photographed under the street sign in Oxford's Logic Lane. It was later in his career that his originality in general philosophy came to fruition, starting with a paper, "Two Dogmas of Empiricism", published in 1951. He took the view that the difference between matters of fact and matters of meaning is only of degree, not of kind. The statement that all bachelors are unmarried is true as a matter of meaning; that Bill Clinton is married is true as a matter of fact. Mr Quine developed a theory of language according to which truths of fact blend into truths of meaning, so that there is no absolute distinction between the two. This had revolutionary implications in philosophy. Most philosophers of the past century—including those influenced by Wittgenstein, the "logical positivists" and Oxford's school of linguistic analysis—had presumed that philosophy was concerned with meaning or concepts, whereas science was concerned with facts. Now the barriers they had sought to erect between philosophy and science began to crumble.

The ramifications of Mr Quine's theory were spelled out in "Word and Object" (1960). From his rejection of the distinction between fact and meaning flowed a system of ideas about experience, translation, learning, understanding and the notions of necessity and possibility. British philosophers of the 17th and 18th centuries—Locke, Berkeley and Hume—had sought to explain how our knowledge of the world was founded on our experience of it. Drawing on the results of logic, linguistics and psychology, Mr Quine now sought to update these accounts. One study of his work, endorsed by Quine himself, dubbed his theory "enlightened empiricism". It is a spartan philosophy: economical in its attempts to establish that the languages of mathematics and physics are enough to express every genuinely factual statement, and that the kernel of those languages is the basic logic of his beloved "Principia Mathematica". He was accused of denying the reality of consciousness, but replied that he was not conscious of having done so.

"The Philosopher's Lexicon" offers the verb "to quine": to deny a distinction. Philosophers like their little jokes. Mr Quine wrote "Quiddities", which exhibited his fascination for words old and new. He could have had a fondness for the quinombrom, an old word for conundrum, defined in James Howell's "Lexicon Tetraglotton" of 1660: "You will judge, perhaps, that the author hath some strange freaks, or quinombroms, in his noddle."

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OUTPUT, DEMAND AND JOBS

Jan 11th 2001
From The Economist print edition

German industrial production rose by 0.4% in November, making a 12-month increase of 4.9%. In December the unemployment rate fell in Germany and in Canada, to 9.2% and 6.8% respectively, but it remained at 4.0% in the United States. Retail sales in the euro area grew by only 1.0% in the year to October, down from 3.3% a month earlier.

% change at annual rate	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)	Unemployment % rate	
	3 mths†	1 year	2000	2001	3 mths†	1 year	1 year	latest	year ago
Australia	+ 2.6	+ 4.2 Q3	+ 4.4	+ 3.3	– 1.5	+ 4.2 Q3*	– 0.8 Q3	6.6 Dec	7.0
Austria	+ 3.2	+ 3.8 Q2	+ 3.4	+ 2.5	na	+ 5.0 Sep*	+ 3.0 Sep	3.2 Nov	3.6
Belgium	+ 1.2	+ 4.4 Q2	+ 3.9	+ 2.8	na	– 0.2 Nov*	+ 6.9 Aug	10.7 Nov*	11.3
Britain	+ 2.8	+ 3.0 Q3	+ 3.0	+ 2.6	+ 0.5	+ 0.6 Oct	+ 4.7 Nov	5.5 Oct‡	5.9
Canada	+ 4.8	+ 5.0 Q3	+ 4.9	+ 3.0	+ 2.3	+ 5.7 Oct	+ 5.1 Sep	6.8 Dec	6.8
Denmark	+ 2.0	+ 2.7 Q3	+ 2.6	+ 2.1	na	+ 2.6 Oct	+ 0.2 Oct	5.6 Nov	5.4
France	+ 2.7	+ 3.1 Q3	+ 3.2	+ 2.7	+ 4.2	+ 3.3 Oct	– 1.9 Oct	9.2 Nov	10.9
Germany	+ 2.3	+ 2.8 Q3	+ 3.1	+ 2.5	+ 3.9	+ 4.9 Nov	– 1.7 Oct	9.2 Dec	10.2
Italy	+ 2.4	+ 2.5 Q3	+ 2.6	+ 2.2	+ 0.1	+ 4.3 Oct	+ 0.3 Sep	10.5 Jul	11.4
Japan	+ 1.0	+ 1.4 Q3	+ 1.8	+ 1.6	– 3.3	+ 3.2 Nov	– 1.4 Oct	4.8 Nov	4.6
Netherlands	+ 3.2	+ 3.4 Q3	+ 3.9	+ 3.1	– 1.1	– 0.3 Oct	+ 1.0 Sep	2.7 Nov§	2.9
Spain	+ 2.2	+ 3.9 Q3	+ 4.0	+ 3.2	– 0.4	+ 2.6 Oct	na	13.6 Nov	15.1
Sweden	+ 3.9	+ 4.0 Q3	+ 4.0	+ 3.4	na	+ 8.0 Oct	+ 5.2 Oct	3.9 Nov*	5.2
Switzerland	+ 2.0	+ 3.6 Q3	+ 3.4	+ 2.3	na	+ 6.9 Q3*	– 2.4 Oct	1.9 Dec*	2.5
United States	+ 2.2	+ 5.2 Q3	+ 5.1	+ 2.3	+ 2.3	+ 4.7 Nov	+ 6.0 Oct	4.0 Dec	4.1
Euro area	+ 2.8	+ 3.4 Q3	+ 3.4	+ 2.9	+ 3.8	+ 3.8 Oct	+ 1.0 Oct	8.8 Nov	9.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	+ 7.0	+ 5.7 Q3	na	na	+16.1	+18.3 Oct	+ 3.7 Aug	8.7 Nov*	9.4
Greece	na	+ 3.7 1999	na	na	na	– 7.2 Aug	+ 9.7 Aug	na	na
Iceland	na	+ 4.4 1999	na	na	na	+ 4.2 1999	na	1.1 Nov	1.5
Ireland	+ 5.3	+11.7 Q1	na	na	+31.0	+ 5.2 Jul	+10.6 Oct	3.7 Nov	4.9
Luxembourg	na	+ 3.5 1999††	na	na	na	– 1.9 Oct*	+ 7.9 Aug	2.6 Nov	2.8
New Zealand	+ 2.7	+ 2.4 Q3	na	na	na	+11.5 Q3*	+ 1.7 Q3	5.7 Q3	6.6
Norway	+ 1.3	+ 1.0 Q3	na	na	+ 6.8	– 0.3 Nov	– 0.5 Nov	3.5 Q3	3.3
Portugal	na	+ 3.0 1999‡‡	na	na	na	+ 2.4 Oct*	+ 9.1 Sep	3.4 Q3	4.2

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡Aug-Oct; claimant count rate 3.6% in October. §Sep-Nov. ††Government est. ‡‡EIU est.

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COMMODITY PRICE INDEX

Jan 11th 2001
From The Economist print edition

In a bid to boost palm-oil prices, Malaysia will cut its output by 500,000 tonnes this year. With stocks at their highest ever, prices have fallen by two-thirds: from record levels in 1998 to a 15-year low of $250 a tonne. In 2000 Malaysia produced a record 10.6m tonnes of palm oil, half the world's output, but consumed less than 2m tonnes. The country will replant ageing trees and reduce the use of fertiliser, despite the risk of losing market share to Indonesia, the second-biggest producer. Prices could pick up in the first quarter when the trees usually produce fewer fruits. Import duties in Pakistan, a big buyer of palm oil, will not rise until February; and China's import quota is expected to rise to 2.1m tonnes this year, up from 1.5m tonnes in 2000.

1995=100	Jan 2nd	Jan 9th*	% change on one month	% change on one year
Dollar index				
All items	72.7	73.0	+ 0.3	– 1.0
Food	72.6	73.1	+ 3.3	+ 3.4
Industrials				
All	72.9	72.9	– 3.5	– 6.5
Nfa†	66.5	65.9	– 2.8	– 7.9
Metals	78.3	78.7	– 3.9	– 5.5
Sterling index				
All items	76.7	77.2	– 2.5	+ 9.3
Food	76.6	77.3	+ 0.4	+ 14.2
Industrials	76.9	77.1	– 6.2	+ 3.3
Euro index				
All items	101.0	102.1	– 6.4	+ 8.3
Food	100.8	102.2	– 3.6	+ 13.2
Industrials	101.2	101.9	– 10.0	+ 2.3
Yen index				
All items	88.6	90.4	+ 4.8	+ 8.9
Food	88.5	90.6	+ 7.9	+ 13.8
Industrials	88.8	90.3	+ 0.8	+ 2.9
Gold				
$ per oz	270.60	267.40	– 1.3	– 5.1
Crude oil North Sea Brent				
$ per barrel	25.35	24.40	– 9.8	+ 0.1
West Texas Intermediate				
$ per barrel	27.26	27.72	– 7.5	+ 8.5

* Provisional. † Non-food agriculturals.

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ECONOMIC FORECASTS

Jan 11th 2001
From The Economist print edition

Every month *The Economist* surveys a group of economic forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest forecasts for growth. The previous month's forecasts, where different, are shown in brackets. This month our forecasters have slashed their estimates for American growth in 2001, from 3.0% in December to 2.3% now. A slowdown in the American economy is expected to curb expansion elsewhere. Growth forecasts have been cut in 14 of the 15 countries, with only Britain escaping unscathed. The euro area is now expected to grow by 2.7%. Japan will remain the most sluggish economy, growing by only 1.6%.

The Economist poll of forecasters, January averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2000	2001	2000	2001	2000	2001	2000	2001
Australia	4.2/4.6	2.5/4.0	4.4 (4.5)	3.3 (3.5)	4.6 (4.7)	4.0 (3.7)	–4.3 (–4.5)	–3.5 (–3.6)
Austria	3.0/3.6	1.8/2.9	3.4	2.5 (2.7)	2.1	1.6 (1.8)	–2.6 (–2.7)	–2.3
Belgium	3.7/4.3	2.0/3.2	3.9	2.8 (3.0)	2.6 (2.5)	2.1 (2.0)	4.1 (4.2)	4.0 (4.2)
Britain	2.9/3.2	2.1/2.8	3.0	2.6	2.4	2.3 (2.5)	–1.5 (–1.6)	–1.9 (–1.8)
Canada	4.7/5.0	2.4/3.7	4.9 (4.8)	3.0 (3.2)	2.7	2.4	1.2 (1.3)	0.6 (1.0)
Denmark	2.3/3.1	1.5/2.7	2.6 (2.5)	2.1 (2.3)	2.9 (2.8)	2.3	1.3 (1.2)	1.3
France	3.1/3.3	2.3/3.0	3.2 (3.3)	2.7 (3.0)	1.8 (1.7)	1.6	2.3	1.9 (2.2)
Germany	3.0/3.3	2.0/2.8	3.1	2.5 (2.8)	1.9 (2.0)	1.6 (1.7)	–1.3 (–1.1)	–0.9 (–0.8)
Italy	2.5/2.7	1.6/2.5	2.6 (2.7)	2.2 (2.4)	2.5 (2.6)	2.1 (2.2)	–0.3 (–0.2)	–0.3 (–0.2)
Japan	1.3/2.4	0.3/2.9	1.8 (2.0)	1.6 (1.9)	–0.7 (–0.6)	–0.4 (–0.2)	2.5	2.2
Netherlands	3.7/4.4	2.2/3.7	3.9 (4.1)	3.1 (3.5)	2.4 (2.5)	3.1 (3.2)	4.9 (5.0)	4.4 (4.7)
Spain	3.9/4.3	2.8/3.5	4.0	3.2 (3.4)	3.4	2.9 (2.7)	–3.5 (–3.1)	–3.1 (–3.0)
Sweden	3.4/4.3	2.9/3.8	4.0 (4.1)	3.4 (3.6)	1.3	1.7 (1.8)	2.1 (2.4)	2.1 (2.3)
Switzerland	3.0/3.6	1.8/2.8	3.4	2.3 (2.5)	1.7 (1.6)	1.5	11.9 (11.3)	11.2 (10.6)
United States	5.0/5.2	1.1/3.1	5.1 (5.2)	2.3 (3.0)	3.3 (3.4)	2.6 (2.8)	–4.4 (–4.3)	–4.2
Euro area	3.3/3.4	2.3/3.0	3.4	2.7 (2.9)	2.3	1.9 (2.0)	–0.3 (–0.2)	–0.2 (0.1)

Sources: ABN Amro, Deutsche Bank, EIU, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan, Morgan Stanley Dean Witter, Nordbanken, Decision Economics, Royal Bank of Canada, Salomon Smith Barney, Scotiabank, Shinsei Bank, Warburg Dillon Read.

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PRICES AND WAGES

Jan 11th 2001
From The Economist print edition

American workers had a pay increase of 4.2% in the year to December, a real rise of 0.8%. Producer prices in the euro area rose by 0.2% in November; the 12-month rate of increase slowed to 6.3%. In the same period, Canadian producer prices rose by 0.6%, to give an annual rise of 5.2%. Danish consumer-price inflation slowed to 2.4% in December.

% change at annual rate	Consumer prices*		The Economist poll consumer prices forecast		Producer prices*		Wages/earnings	
	3 mths†	1 year	2000	2001	3 mths†	1 year	3 mths†	1 year
Australia	+15.8	+ 6.1 Q3	+ 4.6	+ 4.0	+ 8.0	+ 7.2 Q3	+ 6.7	+ 6.5 Q3
Austria	+ 2.3	+ 3.1 Nov	+ 2.1	+ 1.6	+ 4.4	+ 4.4 Dec	+ 0.2	+ 2.0 Oct
Belgium	+ 1.3	+ 2.5 Dec	+ 2.6	+ 2.1	+16.1	+11.8 Oct	nil	+ 1.4 Q3
Britain	+ 2.6	+ 3.2 Nov	+ 2.4	+ 2.3	+ 1.7	+ 2.9 Nov	+ 6.5	+ 4.2 Oct
Canada	+ 3.9	+ 3.2 Nov	+ 2.7	+ 2.4	+ 5.0	+ 5.2 Nov	+ 2.6	+ 4.1 Oct
Denmark	+ 2.7	+ 2.4 Dec	+ 2.9	+ 2.3	+ 6.8	+ 6.7 Nov	+ 7.0	+ 3.8 Q3
France	+ 2.5	+ 2.2 Nov	+ 1.8	+ 1.6	+ 7.2	+ 5.9 Nov	+ 3.4	+ 5.4 Q2
Germany	+ 0.9	+ 2.2 Dec	+ 1.9	+ 1.6	+ 8.9	+ 6.4 Nov	na	+ 2.0 Oct*
Italy	+ 2.9	+ 2.7 Dec	+ 2.5	+ 2.1	+ 7.0	+ 6.7 Nov	+ 1.9	+ 1.8 Nov*
Japan	+ 0.9	− 0.5 Nov	− 0.7	− 0.4	− 0.8	+ 0.3 Nov	na	− 0.5 Nov
Netherlands	+ 5.2	+ 3.0 Nov	+ 2.4	+ 3.1	+10.1	+ 9.0 Nov	+ 3.0	+ 2.9 Nov
Spain	+ 3.5	+ 4.0 Dec	+ 3.4	+ 2.9	+ 6.5	+ 5.7 Nov	+ 3.2	+ 2.4 Q3
Sweden	na	+ 1.7 Nov	+ 1.3	+ 1.7	+ 6.6	+ 4.8 Nov	− 4.2	+ 2.9 Oct*
Switzerland	+ 1.9	+ 1.5 Dec	+ 1.7	+ 1.5	+ 2.9	+ 3.0 Nov	na	+ 0.2 1999
United States	+ 3.0	+ 3.4 Nov	+ 3.3	+ 2.6	+ 3.9	+ 3.7 Nov	+ 4.6	+ 4.2 Dec
Euro area	+ 2.5	+ 2.9 Nov	+ 2.3	+ 2.0	+ 7.7	+ 6.3 Nov	+ 2.0	+ 2.4 Q2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 3.7	+ 4.0 Nov	na	na	+11.2	+ 8.2 Nov	+ 1.3	+ 4.4 Q3*
Greece	+12.6	+ 3.9 Dec	na	na	+13.8	+ 9.0 Nov	na	na
Iceland	+ 4.8	+ 4.2 Dec	na	na	+ 0.9	+ 3.9 Nov	+ 2.8	+ 7.8 Oct
Ireland	+ 5.8	+ 7.0 Nov	na	na	+ 5.8	+ 5.9 Nov	− 5.7	+ 6.1 Q1*
Luxembourg	+ 5.2	+ 3.7 Nov	na	na	+ 1.2	+ 5.2 Oct	+11.7	+ 4.9 Sep*
New Zealand	+ 5.6	+ 3.0 Q3	na	na	+16.1	+ 8.0 Q3	+ 1.1	+ 1.5 Q3
Norway	+ 3.7	+ 3.0 Dec	na	na	+ 2.8	+ 3.8 Dec	+ 3.3	+ 3.9 Q2*
Portugal	+ 2.4	+ 3.8 Nov	na	na	+16.0	+16.7 Nov	na	+ 3.7 Sep*

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate.

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MONEY AND INTEREST RATES

Jan 11th 2001
From The Economist print edition

American Treasury bonds fell as demand shifted to high-yielding corporate bonds coming on to the market. Dealers also took profits after last week's rally. The 30-year Treasury bond yield rose to 5.49%, but it is still close to a two-year low.

	Money supply* % rise on year ago			Interest rates % p.a. (Jan 10th 2001)							
				over-night	3-mth money market latest	3-mth money market year ago	banks prime	2-year gov't bonds	10-year gov't latest†	10-year gov't year ago	corporate bonds
	narrow	broad									
Australia	+ 9.9	+ 4.8	Nov	6.25	5.95	5.70	9.00	4.90	5.35	7.20	6.76
Britain	+ 7.2	+ 8.0	Nov	6.28	5.75	6.09	7.00	5.23	4.79	5.75	6.07
Canada	+16.5	+ 7.6	Nov	5.62	5.24	5.02	7.50	5.01	5.40	6.49	7.13
Denmark	na	+ 0.5	Nov	5.15	5.35	4.63	8.00	4.85	5.04	5.79	7.21
Japan	+ 5.1	+ 2.1	Nov	0.23	0.44	0.05	1.50	0.37	1.58	1.74	1.74§
Sweden	+ 4.4	+ 3.4	Nov	4.00	4.07	3.52	4.61	4.18	4.81	5.87	4.52
Switzerland	– 2.6	– 1.1	Nov	3.61	3.40	1.71	5.63	3.22	3.39	3.60	4.18
United States	– 1.7	+ 8.8	Nov	6.06	5.40	5.70	9.00	4.75	5.09	6.89	6.96
Euro area‡	+ 5.0	+ 4.9	Nov	4.81	4.78	3.22	5.10	4.34	4.72	5.47	5.70

†France 4.87, Germany 4.72, Italy 5.16. Benchmarks: Japan No.226 1.57, US 30-yr 5.49. ‡Germany for prime and bonds. §New series.

*Narrow: M1 except Britain M0, broad: M2 or M3 except Britain M4.Sources: Commerzbank, Den Danske, J.P. Morgan, Royal Bank of Canada, Svenska Handelsbanken, Warburg Dillon Read, WEFA Group, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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MERGERS AND ACQUISITIONS

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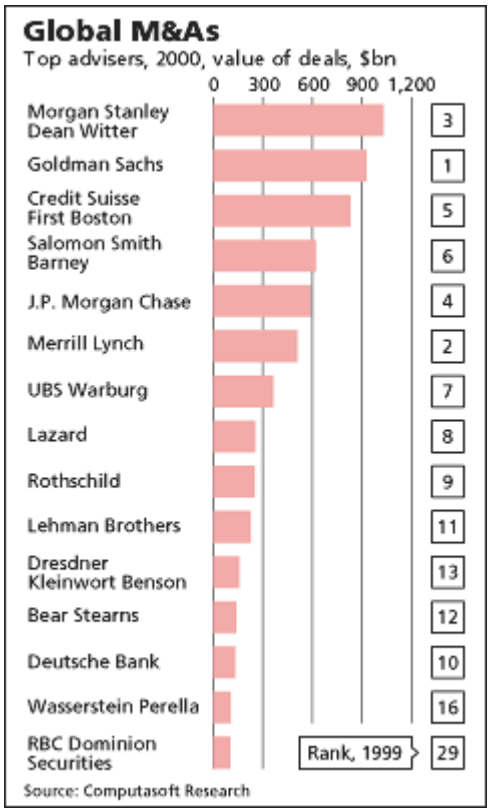
From The Economist print edition

Advising companies how to be bought or sold was yet again a splendid source of profits for investment banks in 2000. The current king of M&A is Morgan Stanley Dean Witter, up from third place in 1999. Among deals worth over $1 trillion, MSDW advised the seller—the main financial winner more often than not, given how often mergers go wrong—in last year's two biggest transactions: AOL's purchase of Time Warner and Glaxo Wellcome's purchase of SmithKline Beecham. Merrill Lynch plunged from second place to sixth, threatening its place in the investment-banking elite's "bulge bracket". J.P. Morgan and Chase Manhattan jumped to fifth place, not least by advising themselves to merge with each other.



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TRADE, EXCHANGE RATES AND BUDGETS

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The yen touched a 17-month low against the dollar; in trade-weighted terms, it fell by 1.4%. Germany's visible-trade surplus narrowed to $2.2 billion in November; its 12-month surplus shrank to $52.7 billion. The euro area's trade surplus fell to $16.8 billion in the 12 months to October—only a quarter of its level a year earlier.

	Trade balance*, $bn		Current account			Exchange rate		Currency units					Budget balance % of GDP 2000§
	latest month	latest 12 months	$bn latest 12 mths	The Economist poll % of GDP, forecast 2000	2001	trade-weighted† Jan 10th	year ago	per $ Jan 10th	per $ year ago	per £	per euro	per ¥100	
Australia	− 0.03 Nov	− 5.6	− 17.8 Q3	-4.3	-3.5	75.2	82.5	1.79	1.52	2.67	1.68	1.54	0.9
Austria	− 0.47 Sep§	− 4.0	− 4.6 Oct	-2.6	-2.3	100.5	101.1	14.6	13.4	21.8	13.8	12.58	-1.6
Belgium	+ 2.04 Sep§	+ 13.7	+ 10.3 Sep	4.1	4.0	99.4	100.1	42.9	39.3	63.9	40.3	36.9	-0.1
Britain	− 3.63 Oct	− 43.2	− 16.3 Q3	-1.5	-1.9	105.0	107.8	0.67	0.61	–	0.63	0.58	2.7
Canada	+ 3.02 Oct	+ 32.5	+ 7.7 Q3	1.2	0.6	79.6	80.5	1.50	1.46	2.23	1.41	1.29	2.5
Denmark	+ 0.26 Oct	+ 4.4	+ 2.3 Oct	1.3	1.3	101.9	102.5	7.94	7.25	11.8	7.47	6.83	2.7
France	− 0.65 Oct	+ 3.9	+ 30.3 Sep	2.3	1.9	102.2	103.1	6.97	6.39	10.4	6.56	6.00	-1.4
Germany	+ 2.22 Nov	+ 52.7	− 29.2 Nov	-1.3	-0.9	99.2	100.2	2.08	1.90	3.10	1.96	1.79	1.4
Italy	+ 0.35 Oct§	+ 2.9	− 3.9 Sep	-0.3	-0.3	72.9	73.6	2,059	1,885	3,068	1,936	1,771	-0.1
Japan	+ 8.98 Oct	+ 121.0	+ 118.7 Oct	2.5	2.2	141.7	148.5	116	106	173	109	–	-6.0
Netherlands	+ 1.01 Oct§	+ 12.5	+ 13.9 Q3	4.9	4.4	98.4	99.1	2.34	2.15	3.49	2.20	2.02	1.6
Spain	− 3.40 Oct	− 39.5	− 18.8 Sep	-3.5	-3.1	74.5	75.0	177	162	264	166	152	-0.3
Sweden	+ 1.15 Nov	+ 14.6	+ 6.3 Oct	2.1	2.1	79.6	82.2	9.43	8.44	14.0	8.87	8.11	3.4
Switzerland	− 0.07 Nov§	− 1.1	+ 32.5 Q3	11.9	11.2	108.6	103.7	1.62	1.57	2.42	1.53	1.40	na
United States	− 39.49 Oct	− 434.7	− 416.5 Q3	-4.4	-4.2	113.4	105.1	–	–	1.49	0.94	0.86	2.3
Euro area	+ 3.16 Oct§	+ 16.8	− 21.9 Oct	-0.3	-0.2	81.0	83.0	1.06	0.97	1.58	–	0.91	0.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*												
Finland	+ 0.95 Nov§	+ 13.3	+ 8.7 Oct	na	na	78.2	78.6	6.29	5.78	9.37	5.92	5.41	4.0
Greece	− 1.91 Q2	− 6.8	− 6.9 Jun	na	na	57.6	59.7	360	322	537	339	310	-1.0
Iceland	− 0.03 Nov§	− 0.5	− 0.7 Q2	na	na	na	na	84.2	71.7	125	79.2	72.4	2.8
Ireland	+ 2.85 Oct	+ 26.0	+ 0.9 Q2	na	na	88.3	89.1	0.83	0.76	1.24	0.78	0.71	5.6
Luxembourg	− 0.18 Oct	− 2.6	− 1.6 Q3	na	na	99.4	100.1	42.7	39.3	63.6	40.2	36.7	na
New Zealand	− 0.19 Nov§	− 1.2	− 3.3 Q3	na	na	81.3	86.8	2.24	1.93	3.34	2.11	1.93	0.5
Norway	+ 2.48 Nov	+ 24.9	+ 19.6 Oct	na	na	93.4	93.6	8.77	7.99	13.1	8.25	7.54	14.0
Portugal	− 0.94 Aug§	− 14.7	− 11.4 Oct	na	na	89.6	90.0	212	195	316	199	182	-1.5

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. §OECD estimate. ‡Not seasonally adjusted.

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STOCKMARKETS

Jan 11th 2001
From The Economist print edition

The Nasdaq Composite and the Dow were down by 3.5% and 3.1% respectively, amid continued concerns over future profits. The markets remain spooked by fears that the Federal Reserve's cut in interest rates may point to an unexpectedly weak economy.

Market indices	Jan 10th	2000-01 high	2000-01 low	% change on one week	% change on one year	% change on record high	Dec 31st 1999 in local currency	Dec 31st 1999 in $ terms
Australia (All Ordinaries)	3,184.5	3,330.4	2,920.0	+ 0.1	+ 2.6	– 4.4	+ 1.0	– 13.8
Austria (ATX)	1,082.5	1,236.1	1,029.4	+ 2.9	– 10.3	– 37.7	– 9.6	– 15.2
Belgium (Bel 20)	2,980.2	3,340.4	2,532.2	– 1.6	– 4.2	– 19.1	– 10.8	– 16.3
Britain (FTSE 100)	6,060.6	6,930.2	5,994.6	+ 0.3	– 7.2	– 12.5	– 12.5	– 19.1
Canada (Toronto Composite)	8,600.8	11,388.8	8,114.2	– 3.8	+ 2.9	– 24.5	+ 2.2	– 0.9
Denmark (Copenhagen SE)	936.5	1,039.0	755.1	+ 2.7	+ 20.8	– 9.9	+ 20.9	+ 13.1
France (SBF 250)	3,599.8	4,390.7	3,512.8	– 0.6	– 0.2	– 18.0	– 5.5	– 11.4
Germany (Xetra DAX)	6,320.1	8,065.0	6,200.7	– 1.8	– 8.6	– 21.6	– 9.2	– 14.8
Italy (BCI)	1,850.0	2,182.3	1,666.4	+ 0.3	+ 8.8	– 15.2	+ 1.8	– 4.5
Japan (Nikkei 225)	13,432.7	20,833.2	13,423.2	– 2.6	– 28.1	– 65.5	– 29.1	– 37.2
(Topix)	1,254.1	2,507.6	1,254.1	– 2.3	– 24.3	– 56.5	– 27.2	– 35.6
Netherlands (EOE)	630.5	701.6	612.4	+ 0.1	– 1.2	– 10.1	– 6.1	– 11.9
Spain (Madrid SE)	918.1	1,146.2	857.9	+ 3.3	– 4.4	– 19.9	– 9.0	– 14.6
Sweden (Affarsvarlden Gen)	4,699.4	6,960.6	4,558.5	+ 3.1	– 13.7	– 32.5	– 14.6	– 22.6
Switzerland (Swiss Market)	7,860.0	8,377.0	6,781.4	– 3.2	+ 5.6	– 6.6	+ 3.8	+ 2.4
United States (DJIA)	10,604.3	11,723.0	9,796.0	– 3.1	– 8.2	– 9.5	– 7.8	– 7.8
(S&P 500)	1,313.3	1,527.5	1,264.7	– 2.5	– 8.3	– 14.0	– 10.6	– 10.6
(Nasdaq Comp)	2,524.2	5,048.6	2,291.9	– 3.5	– 34.4	– 50.0	– 38.0	– 38.0
Europe (FTSE Eurotop 300) *	1,488.4	1,705.0	1,472.5	– 0.7	– 1.6	– 12.7	– 6.0	– 11.8
Euro area (FTSE Ebloc 100) *	1,347.5	1,550.5	1,277.7	– 0.7	+ 1.8	– 13.1	– 2.7	– 8.7
World (MSCI) †	1,202.4	1,448.8	1,178.2	– 2.3	– 13.0	– 17.2	na	– 15.6
World bond market (Salomon) ‡	444.2	442.5	414.8	nil	+ 2.7	– 2.8	na	+ 2.2

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

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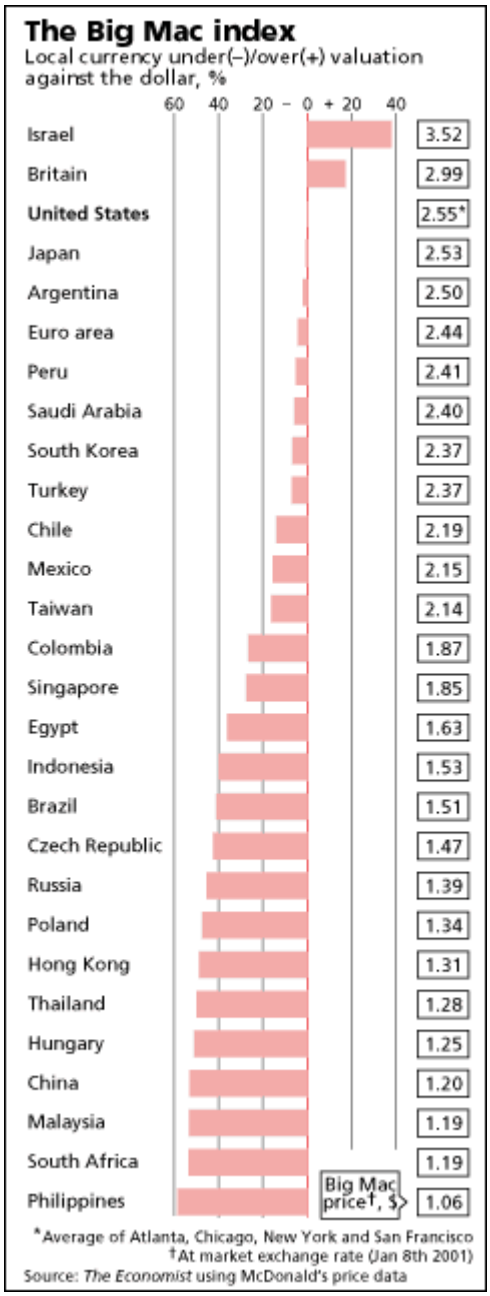
BURGERNOMICS

Jan 11th 2001
From The Economist print edition

The Economist's Big Mac index offers a light-hearted guide to whether currencies are at their correct levels, according to the notion of "purchasing-power parity". Under PPP, exchange rates should adjust to equalise the price of a basket of goods and services across all countries; the Big Mac PPP is the exchange rate at which hamburgers would cost the same in America as in other countries. The chart shows the under- or overvaluation of emerging-market currencies, the euro, sterling and the yen against the dollar. Dividing the price, in shekels, of a Big Mac in Israel by the price, in dollars, of an American Big Mac produces a Big Mac PPP of 5.68 shekels to the dollar. Since the market rate is 4.13, this suggests the shekel is 38% overvalued. At the other extreme, the Philippine peso is almost 60% undervalued: the market rate is 51 to the dollar, against a Big Mac PPP of 21. After its recent recovery, the euro is now only 4% undervalued. The yen is close to its Big Mac mark. But sterling is 17% overvalued.



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FINANCIAL MARKETS

Jan 11th 2001
From The Economist print edition

Istanbul soared by 26.3% as lower interest rates and plans to reform the banks boosted the market out of its crisis-induced slump of late last year. Moscow gained 18.1%, thanks largely to strong foreign investment. Speculation over merger activity among banks, and continued buying of electronics shares, helped Taipei to rise by 11.1%.

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jan 10th		Dec 31st 1999	
	Jan 10th	year ago	Jan 10th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.3	5.40	2,248.3	+ 0.1	+ 54.8	+ 54.9
Hong Kong	7.80	7.78	11.6	5.24	15,435.8	+ 5.8	– 9.0	– 9.3
India	46.6	43.5	69.5	8.75	4,047.6	– 0.3	– 19.1	– 24.5
Indonesia	9,538	7,210	14,214	14.84	417.5	+ 2.9	– 38.3	– 54.4
Malaysia	3.80	3.80	5.66	3.30	679.8	+ 3.4	– 16.3	– 16.3
Philippines	51.1	40.6	76.2	13.94	1,534.2	+ 5.7	– 28.4	– 43.6
Singapore	1.73	1.67	2.58	2.56	1,969.9	+ 5.8	– 20.6	– 23.6
South Korea	1,270	1,144	1,893	6.64	560.8	+ 7.6	– 45.5	– 51.4
Taiwan	32.7	30.7	48.7	5.50	5,436.8	+11.1	– 35.7	– 38.2
Thailand	43.1	37.5	64.3	3.13	293.7	+ 7.9	– 39.1	– 46.9
Argentina	1.00	1.00	1.49	8.69	494.5	+10.1	– 9.9	– 9.9
Brazil	1.94	1.84	2.90	15.80	16,918.6	+ 1.9	– 1.0	– 8.7
Chile	574	520	855	4.55*	4,952.9	+ 1.5	– 4.2	– 11.5
Colombia	2,230	1,905	3,323	13.33	709.8	+ 0.5	– 28.9	– 40.2
Mexico	9.83	9.54	14.6	17.07	5,815.0	– 0.7	– 18.4	– 21.3
Peru	3.52	3.52	5.2	10.92	1,235.0	+ 2.9	– 32.7	– 32.9
Venezuela	699	652	1,041	13.54	7,382.6	+ 7.9	+ 36.3	+ 26.5
Egypt	3.86	3.42	5.75	9.09	7,327.4	– 2.4	– 43.8	– 50.2
Israel	4.12	4.12	6.14	5.93	457.7	– 0.7	– 6.1	– 5.1
South Africa	7.91	6.07	11.8	10.45	8,514.4	+ 5.0	– 0.3	– 22.4
Turkey	669,190	540,550	997,294	46.00	11,540.0	+26.3	– 24.1	– 38.5
Czech Republic	37.3	35.0	55.6	5.34	488.4	+ 5.6	– 0.3	– 4.0
Hungary	282	248	420	11.49	7,755.4	+ 3.3	– 12.1	– 20.8
Poland	4.14	4.07	6.17	18.98	16,996.9	– 2.9	– 6.0	– 6.0
Russia	28.4	28.8	42.4	25.00	154.7†	+18.1	– 10.1	– 13.0

*Inflation-adjusted. †In dollar terms.

Sources: National statistics offices, central banks and stock exchanges; Primark Datastream; EIU; Reuters; Warburg Dillon Read; J.P. Morgan; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Bank Ekspres; Deutsche Bank; *Russian Economic Trends*.

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ECONOMY

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China's GDP growth slowed to 7.4% in the year to the fourth quarter, falling below 8% for the first time in 2000. Argentina's economy recorded no growth in the 12 months to the third quarter. In December, the annual inflation rate edged up to 9.0% in Mexico. Russia's current-account surplus widened to $43.8 billion in the year to the end of the third quarter.

	% change on year earlier			Latest 12 months, $bn		Foreign reserves*, $bn	
	GDP	Industrial production	Consumer prices	Trade balance	Current account	Latest	Year ago
China	+ 7.4 Q4	+10.6 Nov	+ 1.3 Nov	+24.1 Dec	+15.7 1999	160.1 Sep	154.7
Hong Kong	+10.4 Q3	− 0.1 Q3	− 2.0 Nov	−10.6 Nov	+ 9.2 Q3	104.2 Nov	92.1
India	+ 7.2 Q4†	+ 6.6 Oct	+ 2.7 Nov	− 9.0 Nov	− 5.6 Q3	35.5 Nov	32.0
Indonesia	+ 5.1 Q3	+38.4 Q4†	+ 9.4 Dec	+30.5 Oct	+ 6.2 Q1	29.0 Nov	26.3
Malaysia	+ 7.7 Q3	+11.1 Nov	+ 1.9 Nov	+16.8 Nov	+11.3 Q2	30.1 Oct	30.0
Philippines	+ 4.8 Q3	+21.0 Oct	+ 6.0 Nov	+ 5.8 Oct	+ 9.1 Aug	13.0 Sep	12.7
Singapore	+10.4 Q3	+17.1 Nov	+ 1.8 Oct	+ 4.0 Nov	+21.6 Q3	77.8 Sep	75.9
South Korea	+ 9.2 Q3	+ 6.4 Nov	+ 3.2 Dec	+12.1 Dec	+11.7 Nov	96.2 Dec	74.0
Taiwan	+ 6.6 Q3	+ 1.6 Nov	+ 1.7 Dec	+ 8.4 Dec	+ 7.5 Q3	109.1 Oct	102.7
Thailand	+ 2.6 Q3	− 2.0 Nov	+ 1.3 Dec	+ 5.8 Nov	+ 9.5 Nov	31.7 Nov	32.1
Argentina	nil Q3	− 4.6 Nov	− 0.7 Dec	+ 0.6 Nov	−11.4 Q2	23.3 Oct	22.4
Brazil	+ 4.5 Q3	+ 4.9 Nov	+ 5.5 Nov	− 0.7 Dec	−24.9 Nov	32.5 Nov	42.2
Chile	+ 5.8 Q3	+ 5.2 Oct	+ 4.7 Nov	+ 1.1 Nov	− 0.7 Q3	14.2 Oct	14.3
Colombia	+ 3.1 Q3	+10.3 Oct	+ 8.8 Dec	+ 2.2 Oct	+ 0.1 Q2	8.4 Nov	8.9
Mexico	+ 7.1 Q3	+ 7.3 Oct	+ 9.0 Dec	− 7.6 Nov	−16.4 Q3	35.3 Oct	32.3
Peru	+ 0.2 Oct	+ 0.8 Oct**	+ 3.7 Dec	− 0.4 Oct	− 1.6 Q3	8.9 Sep	8.9
Venezuela	+ 3.3 Q3	na	+ 13.4 Dec	+14.4 Jul	+11.8 Q3	14.3 Oct	11.8
Egypt	+ 6.5 2000‡	+ 9.4 2000‡	+ 2.5 Oct	−10.8 Q3	− 0.9 Q3	13.4 Aug	16.1
Israel	+ 7.3 Q3	+ 1.6 Oct	+ 0.1 Nov	− 7.4 Nov	− 0.7 Q3	22.0 Nov	21.4
South Africa	+ 4.5 Q3	+ 3.6 Nov	+ 7.1 Nov	+ 2.6 Nov	− 0.7 Q3	6.1 Oct	5.9
Turkey	+ 7.4 Q3	+10.5 Nov	+ 39.0 Dec	−25.7 Oct	− 9.2 Oct	24.3 Sep	23.7
Czech Republic	+ 2.2 Q3	+ 9.0 Oct	+ 4.0 Dec	− 3.1 Nov	− 1.9 Q3	13.1 Dec	12.9
Hungary	+ 4.6 Q3	+13.3 Nov	+ 10.6 Nov	− 2.2 Nov	− 0.6 Nov	10.1 Oct	10.2
Poland	+ 5.2 Q2	+ 7.2 Oct	+ 9.3 Nov	−14.4 Oct	−11.6 Oct	26.1 Oct	24.8
Russia	+ 7.9 Q3	+ 7.6 Nov	+ 19.8 Nov	+57.3 Oct	+43.8 Q3	22.3 Oct	7.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*						
Pakistan	+ 3.9 1999‡	+ 4.2 Jun	+ 4.9 Nov	− 2.0 Nov	− 2.5 1999	1.1 Sep	1.5
Saudi Arabia	+ 0.4 1999	na	− 1.0 Oct	+24.9 1999	− 1.7 1999	16.4 Sep	14.1

*Excluding gold, except Singapore; IMF definition. †1999. ‡Year ending June. **New series

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